

HARGREAVES LANSDOWN PLC

PILLAR III DISCLOSURES

**BASED ON FINANCIAL DATA
AS AT 30 JUNE 2021**

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Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row

1. Overview

1.1 Regulatory Framework

The European Union (EU) has an established Capital Requirements Directive IV (CRD IV) that sets out an appropriate framework governing the amount and nature of capital that credit institutions and investment firms must maintain. The directive is directly binding on firms in the UK. The applicable resulting regulations are:

- The Capital Requirements Regulation – (“CRR”)
- Prudential sourcebook for investment firms – (“IFPRU”)

The framework consists of three pillars:

Pillar I sets out the minimum capital requirements for credit, market and operational risk;

Pillar II is a capital adequacy assessment and complements the existing Pillar I requirements by assessing the need to hold additional capital under a more risk based assessment; and

Pillar III focuses upon disclosure requirements which enable the market to assess information on a firm’s risks, capital and risk management procedures.

1.2 Scope

The disclosure of this document meets the obligation of Hargreaves Lansdown Plc (the “Company”) with respect to Pillar III. The Pillar III disclosure requirements are contained in Articles 431-455 of the CRR. The purpose of these disclosures is to provide information on the basis of calculating capital requirements and on the management of risks faced by the Company and its subsidiaries (together the “Group”).

The CRR rules, governing Pillar III disclosures, provide that the Group may choose not to disclose information which is not material (Article 432) (1). The Group may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted (Article 432) (2) with the exception of Risk Management Objectives and Policy (Article 435 (2) (C)), Own funds (Article 437) and Remuneration Policy (Article 450).

1.3 Group structure & composition

The accounting consolidation for the annual financial statements includes all entities controlled by Hargreaves Lansdown Plc (HL). The prudential consolidation (“Consolidation Group”) includes all entities with the exception of some Dormant and Trustee companies including the Employee Benefit Trust (EBT) - see table 1. The reserves of the EBT are not distributable by the Group, as the assets and liabilities of the EBT are subject to management by the Trustees in accordance with the EBT trust deeds.

Apart from the requirements of the UK regulator, the Financial Conduct Authority (“FCA”), to hold regulatory capital in individual regulated entities and corporate law restrictions on the reduction, redemption and purchase of share capital, there are no practical or legal impediments to the prompt transfer of capital between the Company and its subsidiaries¹.

Table 1: Entities included/excluded within the prudential consolidation (Consolidation Group)

Company name	Principal activity	Regulation
Prudential Consolidation Group:		CRD IV
Hargreaves Lansdown Plc	Non-regulated holding company.	CRD IV
Hargreaves Lansdown Asset Management Ltd	Unit trust and equity broking, investment fund management, life and pensions consultancy	Limited Licence IFPRU €125k firm
Hargreaves Lansdown Fund Managers Ltd	Unit trust management	Collective Portfolio Manager (CPM)

Hargreaves Lansdown Advisory Services Ltd	Advisory services	Personal Investment Firm (PIF)
Hargreaves Lansdown Stockbrokers Ltd	¹ .	
Hargreaves Lansdown Savings Ltd	Cash services	Payment Services Regulation (PSR) Electronic Money Regulations (EMR) E-money Firm Institution and Personal Investment Firm (PIF)
HL Tech Sp.Z.O.O	Service company	CRD IV
Hargreaves Lansdown Investment Management Ltd	Dormant	CRD IV
Hargreaves Lansdown Pensions Ltd	Dormant	CRD IV

Trustee & Dormant Co's excluded from Prudential UK Consolidation Group:	Principal activity
Hargreaves Lansdown (Nominees) Ltd	Nominee services
Hargreaves Lansdown Savings (Nominees) Ltd	Nominee services
Hargreaves Lansdown EBT Trustees Ltd	Corporate trustee for the Hargreaves Lansdown Employee Benefit Trust
Hargreaves Lansdown Pensions Trustees Ltd	Corporate trustee for the Hargreaves Lansdown SIPP
Hargreaves Lansdown Trustee Company Ltd	Corporate trustee for the Share Incentive Plan
Hargreaves Lansdown Insurance Brokers Ltd	Dormant

1.3 Frequency

Pillar III disclosures will be made on an annual basis following publication of the Group's annual report.

1.4 Location

The Pillar III disclosure report will be published in the Investor Relations section of the Group's website (www.hl.co.uk), and will also be available on request by writing to Investor Relations, One College Square South, Anchor Road, Bristol, BS1 5HL.

1.5 Verification

Disclosures will only be subject to external verification to the extent they are equivalent to those taken from the audited annual financial statements. These disclosures explain how the Hargreaves Lansdown Plc Board (the "Board") has calculated certain capital requirements and information about risk management generally. They do not constitute financial statements and should not be relied upon in making judgements about the Group.

2 Governance

¹ Hargreaves Lansdown Stockbrokers Ltd ceased trading on 31 January 2017 – all trade and assets were sold to Hargreaves Lansdown Asset Management Ltd

2.1 Overview

Risk management is a core responsibility of all colleagues at HL. The oversight of risk and control management is provided by plc Board committees and the Group Risk and Compliance functions. Ownership of the ICAAP at an Executive level rests with Group Chief Risk officer with day to day accountability owned by the Chief Risk Officer.

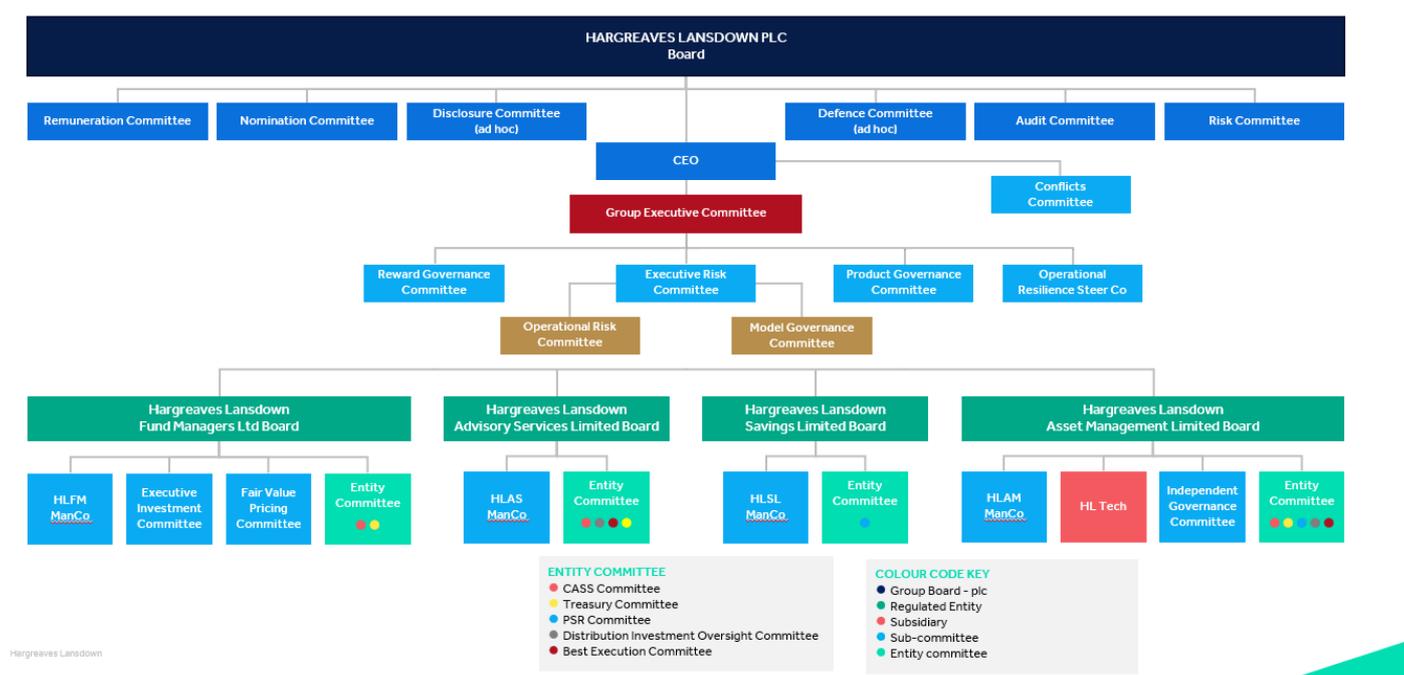
The Board has ultimate responsibility for the Group's risk management, risk strategy and determining an appropriate risk appetite as well as setting the tolerance levels within which the Group must operate.

HL manages risk at a consolidated level, ensuring completeness of the Group's overall risk profile. The Group's Risk Management Framework sets out HL's approach to managing risk within agreed appetite levels. It aligns to delivering both the Group strategy and fair outcomes for our clients.

Risk is a key consideration of all the plc Board Committees, with the primary Committee for risk consideration being the Board Risk Committee BRC. There are currently three key business committees with a focus on risk management and the ICAAP; these are the Group Executive Committee, Executive Risk Committee and the Model Governance Committee.

The Operational Risk Committee (ORC), a sub-committee of the Group ERC, to oversee the Group's Risk Management Framework. Each committee meets on at least a quarterly basis.

Figure: HL governance structure



2.2 Governance framework

Following an in-depth review of the Group's governance framework, the Group has continued to implement improvements and upgrades to the governance, systems and controls, skills and capabilities and risk management practices,

- An increased emphasis on the roles of the boards of the Group's principal operating subsidiaries and the framework that supports them;
- The establishment of an Operational Risk Committee, a sub-committee of the Group Executive Risk Committee with the responsibility for oversight and challenge of the current and emerging Operational risks (as defined by Level 1 of the Group's risk taxonomy) affecting the Group and the impact of those risks on the Group, and Entities operational risk profile.

Enhancements will continue to be delivered during 2022.

The plc Board and the Group Executive Committee have supported consequential changes to the operation of governance forums elsewhere in the Group's framework to promote efficiency and flexibility whilst ensuring continued adherence to good governance practices.

2.3 Governance committees with key Risk Management responsibilities

2.3.1 Group Executive Committee

The Chief Executive Officer (CEO) is responsible for overseeing the Group's performance and delivery of strategy, and for ensuring its effective management within the approved governance, risk and internal control framework. The CEO has established the Group Executive Committee to assist in discharging these responsibilities. The Group Executive Committee comprises members of the Group's senior executive management, and is involved in the assessment, challenge and approval of the end-to-end ICAAP.

2.3.2 Executive Risk Committee

The Executive Risk Committee is a sub-Committee of the Group Executive Committee. It is responsible for overseeing and advising the Group Executive Committee on the Group's overall risk profile and any changes to it, by reference to the Group's Principal Risks and approved risk appetite, identifying and assessing emerging risks linked to the Group's strategic objectives, and overseeing the Group's capital adequacy and liquidity under the ICAAP regime.

2.3.3 Model Governance Committee

The Model Governance Committee is a sub-committee of the Group Executive Risk Committee. It is primarily responsible for the review, challenge and approval of Operational Risk Model inputs including justifications and supporting evidence for model calibrations, and for providing assurance to the Executive Risk Committee that the adopted methodology and approach is appropriate given the scale, nature and complexity of the business.

2.3.4 Operational Risk Committee

The Operational Risk Committee is a sub-committee of the Group Executive Risk Committee. It has responsibility for oversight and challenge of the current and emerging Operational risks (as defined by Level 1 of the Group's risk taxonomy) affecting the Group and the impact of those risks on the Group, and Entities' operational risk profile. This includes compliance with applicable regulations as well as the frameworks in place to support the identification, assessment, measurement, management and monitoring of operational risks.

2.3.5 Product Governance Committee

The Product Governance Committee oversees the product governance arrangements for the manufacture or distribution of products and services by the Group, with a particular focus on ensuring compliance with the Product Governance Sourcebook of the FCA Handbook (PROD). It also oversees arrangement for the management of Conduct Risk within the Group, including the approach to dealing with vulnerable clients.

2.3.6 Operating subsidiary governance

A key aspect of the governance framework is an increased emphasis on the role of the board of directors of each of the Group's regulated operating subsidiaries. Under the existing framework, each subsidiary board is responsible for the operation of the business of that subsidiary. Responsibilities include

- overseeing the successful execution of the Group's strategy by the subsidiary, as it applies to it,
- monitoring and reporting on performance of the subsidiary against targets, key performance and risk metrics,
- monitoring the effectiveness of the subsidiary's risk mitigation strategy,
- and managing the subsidiary's risks and ensuring compliance with the subsidiary's legal and regulatory obligations and relevant HL Group policies.

Each of the subsidiary boards holds regular meetings, at least quarterly, for these purposes.

To assist the subsidiary boards in discharging their responsibilities, management committees have been formed for each operating subsidiary. The management committees meet monthly and have responsibility for the day to day management of their businesses. The management committees are empowered to make decisions on behalf of the subsidiary boards, within the boundaries of a list of matters reserved to the boards (which include matters requiring escalation to the Group Executive Committee and/or plc Board).

The subsidiary boards are also supported by a number of other committees in discharging their responsibilities. This includes the CASS Committee which oversees compliance with the CASS regime by those of the operating subsidiaries that are subject to it, and the aforementioned Executive Investment Committee and Distribution Investment Oversight Committee which oversee investment decision making within the operating subsidiaries which relate to products and services manufactured or distributed by the Group.

3 Own Funds

3.1 Capital Management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital as at 30 June 2021 was £592.4m and this capital is managed via the net assets to which it relates.

Regulatory capital is determined in accordance with the requirements of the CRR and the Group's regulatory capital is divided into two tiers:

- Tier 1 capital - the total of issued share capital, retained earnings and reserves created by appropriations of retained earnings, adjusted for the net of the book value of goodwill, intangible assets and deferred tax assets that rely on future profitability if they represent greater than 10% of own funds; and
- Tier 2 capital – is designed on supplementary capital and is composed of items such as revaluation reserves, hybrid instruments and subordinated debt.

The entire base of capital resources can be regarded as Tier 1 capital i.e. the most robust category of financial resources against which all requirements can be measured.

The Group's objectives when managing capital are i) to comply with the regulatory capital requirements set by the FCA and European Banking Authority ii) to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and iii) to maintain a strong capital base to support the development of its business.

3.2 Own Funds – Capital Resources calculation

The Group has complied with the capital requirements set out by the EBA/FCA. Table 2 shows the breakdown of the total available regulatory capital for the Consolidation Group reconciled to the capital shown in the audited consolidated financial statements.

Table 2: Reconciliation of Own Funds as per audited financial statements as at 30 June 2020 and regulatory Consolidation Group Own funds as at 30 June 2021

HL Consolidated Group	YE 2020 (£m)
Own Funds - Financial statements	557.6
Regulatory adjustments:	
Trustee and Dormant companies (note 1)	(3.3)

Profits verification – 11 months to May 2021	271.5
Dividends paid in the year	(263.5)
Provision for final/special dividend (note 2)	(197.1)
Intangible assets (note 3)	(33.6)
Goodwill	(1.3)
Regulatory capital as at 30 June 2021	330.4
Risk Weighted Assets (RWA)	581.1
Tier 1 Ratio (Regulatory capital / RWA)	56.9%

Note (1): Trustee and Dormant companies are excluded from the regulatory definition of the Consolidation Group.

Note (2): Foreseeable dividend was the estimated final and special dividend due to be paid in October 2021 relating to the financial statements for the year ended 30 June 2021. The actual payment was £182.9m.

Note (3): Intangible assets represent software costs and software assets under construction.

For accounting purposes, software and IT development costs are capitalised as intangible fixed assets where they meet certain criteria. Intangibles do not qualify as capital for Tier 1 purposes and are therefore deducted.

4 Capital Adequacy

4.1 Regulatory Capital Requirement

The Pillar I capital requirement under CRD IV is the higher of i) the Fixed Overhead Requirement (FOR) and ii) the sum of the credit risk capital requirement, market risk capital requirement and settlement risk capital requirement (the sum of points a) to d) and f) of Article 92 (3)).

The consolidation group and each of the qualifying regulated entities within the Group are required to meet the relevant Pillar I regulatory CRR set out in CRD IV.

The Group is required to meet further requirements of the Directive under Pillar II and assess the cost of following a plan that allows an orderly run-off following the decision to wind up the business.

The FCA takes into account the above assessments during their Supervisory Review & Evaluation Process (SREP) before issuing any Individual Capital Guidance (ICG). Overall, the Group must therefore hold capital based on the higher of the Pillar I and Pillar II calculations in accordance with guidance from the FCA.

Pillar II capital requirements are outside the scope of this disclosure document.

4.2 Capital ratios

The Consolidation Group and all qualifying regulated entities within the Group are required to meet the general own funds requirement under Pillar I in accordance with Article 92 of the CRR. Institutions shall at all times satisfy the following own funds requirements:

- a) A Common Equity Tier 1 capital ratio of 4.5%
- b) A Tier 1 capital ratio of 6%
- c) A total capital ratio of 8%

CRD IV requires these ratios to be calculated using the capital resources divided by the total exposure values, which are the Pillar I requirements multiplied by 12.5. As at 30 June 2021 the Tier 1 ratio was 56.9%.

4.3 Pillar I minimum capital requirement calculation

Table 3: Pillar I capital requirement calculation

	Consolidated Group as at 30 June 2021	
	Minimum 8% own funds requirement	Risk weighted assets
	£m	£m
Fixed overhead requirement	46.5	581.1
Credit risk requirement	21.6	270.3
Settlement risk requirement	0.6	7.8
Own Funds Pillar I requirement (Fixed Overhead Requirement)	46.5	581.1
Regulatory own funds	330.4	
Excess of own funds over Pillar I capital requirement	283.9	
Cover relative to capital resources	711%	

5. Credit Risk

5.1 Credit risk overview

Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

Within the Group's stockbroking operations, the Group is exposed to credit risk from counterparties to a securities transaction during the period between the trade date and the settlement date. This period is generally three business days. The Group has credit exposure that extends beyond the original settlement date if the counterparty fails either to make payment or to deliver securities. These transactions are with financial institutions and clients.

Other regulatory credit risk within the Group is primarily attributable to fixed assets and other trade receivables. The majority of these trade receivables represent balances due from retail clients and other regulated financial institutions where there is an ongoing relationship between the Group and institution. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Cash is held with banks or building societies who have been authorised to accept deposits in the UK, and are regulated by the Prudential Regulation Authority, therefore recognised as under the protection of the Financial Services Compensation Scheme. The Group considers the credit risk on liquid funds to be limited. The Group takes what it considers to be a conservative approach to treasury management and its selection of banking counterparties and carries out frequent reviews of all its banks' and custodians' ratings in addition to ongoing monitoring of treasury policy and suitability of banking counterparties.

Credit risk is calculated under the standardised approach as per Article 107. The exposure value of an asset is its accounting value after credit risk adjustments.

5.2 Analysis of the credit risk capital requirement and risk weighted assets

The Group has adopted the standardised approach to credit risk applying an 8% factor to the risk weighting for each asset class.

Table 4: Credit risk capital requirement and risk weighted assets by exposure class

Exposure classes	Minimum 8% own funds requirement £m	Risk weighted exposure £m
Institutions	11.3	141.1
Retail	6.1	76.6
Other items	2.3	28.6
Corporates	1.1	13.9
Central governments or central banks	0.7	9.2
Equity	0.1	0.9
Total credit risk capital requirement	21.6	270.3

5.3 Capital requirement for settlement/delivery risk:

The risk exposure amount for settlement/delivery risk relates to trades that are past the agreed settlement date and is calculated as the price difference between the agreed settlement price of the security and its current market value, where the difference could involve a loss for the Group (Article 378 CRR). As at 30 June 2021 the settlement/delivery risk requirement was £0.6m.

5.4 Capital requirement for operational risk:

Operational risk is defined by the FCA as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. As a Limited Licence Group, the Group is not required to hold capital at Pillar I under the FCA's standardised approach to operational risk (IFPRU 5.1.1) and has not done so.

5.5 Concentration risk

Concentration risk is the risk that activities or exposures in a single area may lead to an unexpected loss. HL holds cash balances with approved banks and the risk of bank concentration is considered to be sufficiently mitigated by splitting this exposure between Lloyds, our transactional bank, and other approved banks.

6 Market Risk

6.1 Market risk overview

Market risk is the risk of loss that arises from fluctuations in the values of, or income from, assets and liabilities as a result of movement in market prices. The effects of changes in interest rates are considered as interest rate risk in the non-trading book.

HL does not operate a trading book. Market risk does affect the values of customer accounts. This impacts HL through lower than anticipated assets under administration and subsequent reduction in annual fund management charges and income.

6.2 Interest rate risk in the non-trading book

The Group is exposed to interest rate risk. Interest rate risk is the risk that the Group will sustain a loss of revenue from adverse movements in its interest bearing assets. There is an exposure to interest rates on banking deposits

held in the ordinary course of business. At 30 June 21 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £445.3million comprising cash, cash equivalents and term deposits.

The Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings.

As a source of revenue is based on the value of client cash under administration, the Group has an indirect exposure to interest rate risk on cash balances held for clients. These balances are not on the Group balance sheet.

The Group is also exposed to business risk arising from the impact of interest rates on the wider investment market as the Group derives revenue from assets under administration.

6.3 Foreign exchange risk

The Group is not exposed to any material foreign exchange risk.

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. With substantially all of the Group's businesses currently operating within the UK, and therefore with minimal net assets and transactions of the Group denominated in foreign currencies, the Group is not exposed to significant foreign exchange translation or transaction risk and as such does not hedge any foreign current assets or liabilities. The Group deals in foreign currencies on a matched basis on behalf of clients, limiting foreign exchange exposure.

Under Article 351 of the CRR, HL holds a net foreign-exchange position of less than 2% of own funds and is therefore not required to hold a Pillar I market risk position.

6.4 Trading book position risk

The Group does not trade as principal and therefore is not exposed to trading book position risk.

7 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal and financial crime risks, but does not include strategic, reputation and business risks. The Group seeks to mitigate operational risk in accordance with its risk management process outlined in Section 2.

As a Limited Licence Group, the Group is not required to hold capital at Pillar I under the FCA's standardised approach to operational risk and has not done so. However, in assessing the risk universe, some risks have an operational impact, particularly in relation to technology, IT and systems and areas that can give rise to regulatory issues. The financial and reputational impact of these risks has been assessed and stressed as part of our Pillar II analysis to calculate an appropriate capital figure. The Group maintains insurance against a number of major operational risks.

8 Reputational risk

Reputational risk is the risk that any event or circumstance occurs that could adversely impact the Group's reputation. The effect could be a loss of confidence in the business by clients which would ultimately affect the ability to generate income.

The Group's reputation has been built up over many years and is a contributing factor to attracting and retaining clients. This covers brand damage, negative media coverage or poor PR, although many risks may carry an element of reputational risk. The impacts of reputational risk are a core aspect of the stress testing performed and the assessment of future business levels.

9 Business risk

Business risk is the exposure to uncertainty in the macroeconomic environment. Business risk is managed with a long-term focus, assisted by appropriate management oversight and a corporate governance framework.

The most significant business risk exposure to the Group is a severe and prolonged downturn in financial markets. The Group assesses a Pillar II (b) capital requirement in respect of this risk by projecting the effects of stress testing and considering mitigating action which could be taken to reduce the effect.

10 Liquidity risk

Liquidity risk is the risk that HL, although solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at an excessive cost. HL maintains adequate liquidity to cover its needs on a daily basis and is self-sufficient in terms of its liquidity requirements. All client assets are held in a separate nominee company. Client money is held in segregated client money accounts which therefore do not present any liquidity risk.

The Group's management are committed to the control and management of liquidity on a day-to-day basis to ensure all obligations can be met in a timely manner. In order to do this, and also to comply with the wider requirements of the FCA, Hargreaves Lansdown has set a conservative liquidity risk appetite, introduced governance and controls appropriate to a large retail investment firm and designed a Contingency Funding Plan (CFP).

Hargreaves Lansdown's high-level approach to corporate liquidity management is:

- Determine the level of available cash resources by forecasting the month end cash position;
- Ensure that cash balances together with other funding sources remain sufficient in line with the Group liquidity risk appetite;
- Stress test the liquidity risks identified on the liquidity risk register; and
- Stress test results are used to inform the liquidity risk appetite and contingency funding requirements.

11 Remuneration Code Disclosure

Appendix 1 – Pillar III Remuneration Disclosure

11.1 Role of the Remuneration Committee

The Board remains ultimately accountable for executive remuneration but has delegated this responsibility to the Remuneration Committee (Committee).

The Committee is therefore responsible for determining the Remuneration Policy for the Group, and its application for the remuneration of the Executive Directors, other members of the Executive Committee (ExCo), the Company Secretary and all other staff who are designated Material Risk Takers under the relevant FCA Remuneration Codes. The policy is determined with due regard to the interests of shareholders and other stakeholders, and the Group's culture and defined behaviors, with the objective of being able to attract, retain and motivate individuals of the calibre required to run a group of the scale and complexity of Hargreaves Lansdown without paying more than is warranted.

The performance measurement, individual bonus outcomes and determination of annual remuneration packages of the Executive Directors and key members of senior management is also undertaken by the Committee. For other individuals, remuneration decisions are applied via a delegation policy and via a sub-committee (the Reward Governance Committee) consisting of the Chief Executive Officer, Chief Financial Officer, Chief People Officer (Chair) and Group Chief Risk Officer (GCRO), which reports to the Committee on its decisions. Any exceptional remuneration arrangements for senior employees are approved by the Committee as well as those deemed high earners using internal criteria.

The Committee also ensures that the remuneration relationship between the Executive Directors and senior employees of the Group is appropriate, and that the Remuneration Policy complies with the relevant FCA Remuneration Code which applies to Hargreaves Lansdown as a Level 3 IFPRU firm, in a manner that is proportionate to the size, complexity and nature of its business activities as a single business area company.

The Remuneration Committee is governed by formal Terms of Reference, which are reviewed annually. It is comprised of at least three independent Non-executive Directors. There were eight scheduled meetings during the year and additional ad hoc meetings where required. None of the Committee members has any personal financial interest (other than as shareholders) or conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

The Committee is supported by the Group Company Secretary, the Chief People Officer, the Head of Performance and Reward, and the Chief Executive Officer who are invited to attend Committee meetings to provide further background information and context to assist the Committee in its duties. No Director was involved in decisions regarding the determination of their own remuneration.

The Committee approved the reappointment of Deloitte LLP, a previous advisor to HL and signatory to the Remuneration Consultants Group's Code of Conduct for the provision of independent remuneration advice, and throughout the year have been advised by them. The Committee considers shareholder feedback received in relation to the annual AGM at its first meeting following the AGM. This feedback, as well as any additional feedback received during any other meetings with shareholders, is then considered as part of the Company's annual review of the remuneration policy. Engagement is sought with the largest shareholders to ensure the range of views on remuneration matters are understood. When any material changes are made to the policy, the Committee will discuss these in advance with major shareholders wherever practical. The remuneration policy is also subject to a binding vote and was approved by shareholders at the 2020 AGM. It is intended that it should apply for three years, until the 2023 AGM.

11.2 Remuneration policy

The Group's Remuneration Policy is designed to ensure that remuneration supports the Company's strategic objectives, is appropriately positioned against the external market, provides sufficient control mechanisms to ensure that remuneration is appropriately risk adjusted, and provides fair rewards which will attract, retain and motivate individuals of the calibre required to run a group of the scale and complexity of Hargreaves Lansdown.

Remuneration packages are comprised of the following elements:

- **Base salary** - reflects the individual's responsibilities, experience and contribution.
- **Pension** - provides adequate pension saving arrangements for Directors and employees.
- **Benefits** - to support the wellbeing of Directors and employees and provide flexibility to suit a diverse workforce.
- **Annual Discretionary Bonus Scheme** - rewards achievement of the Group's business plan, key performance indicators and an individual's personal contribution.
- **HLFM Bonus Scheme** - rewards our Fund Managers based on a combination of fund performance, Group performance and an individual's personal contribution.
- **Sustained Performance Plan (SPP)** - long term incentive plan which enables us to reward our Directors over the long-term. Vesting of awards is subject to specific financial and non-financial performance underpins.

Design of variable remuneration

11.3 Design of variable remuneration

Hargreaves Lansdown rewards employees who deliver against the strategy, their personal objectives, and demonstrate behaviours aligned to our company values. The service contracts of HL employees outline that the individuals may be paid a discretionary bonus for each financial year and that bonus payments are discretionary and non-pensionable.

Individual performance is assessed against objectives and ratings are assigned by line managers based on delivery against objectives (what) and behaviours against role level competency requirements aligned to our values (how). All colleagues have a risk and a culture objective in support of individual operation within the Company's agreed Risk Management Framework and ensuring behaviours are aligned to company values. Ratings descriptors are used to assist line managers in assessing performance and behaviours, and a ratings matrix is used to assign ratings. Calibration of ratings is undertaken by line managers to ensure fairness and consistency in their assessment of performance.

The overall size of aggregate bonus awards is determined by the Remuneration Committee and is calculated based on various business performance metrics and taking account of market rates of pay.

The GCRO, with input from Risk, Compliance and Audit, assesses if there are any risk factors or events that should reduce aggregate and/or individual bonus awards payable. This is submitted to the Committee as part of the assessment process. Bonuses will be materially affected if there is a failure to meet either group or individual standards and expectations either in whole or part, with the possibility to award zero bonus, should the Committee consider it appropriate.

The Committee can defer a decision to award bonuses or award and suspend payment of bonuses or suspend vesting of deferred bonuses of any individual in scope of an investigation into their conduct or responsibility, accountability or knowledge and/or influence over any material risk event identified during or after the performance year.

All bonus schemes and long term incentive plans described are also subject to malus and clawback provisions as appropriate.

11.4 Annual Discretionary Bonus Scheme (ADBS)

The scheme is designed to ensure participants are appropriately motivated to support Hargreaves Lansdown in achieving its strategic goals.

Group performance is assessed against a combination of financial/growth measures (net new business, client numbers and profit before tax), client retention, colleague advocacy and strategic delivery measures, and individual objectives (including behaviours aligned to HL's values) over a one-year period.

In assessing the overall performance outcome, the Committee will also use its judgement to consider:

- The extent to which management has operated within agreed risk parameters; and
- The extent to which the bonus outcome reflects the overall performance of the business in the context of shareholder and wider stakeholder experience.

Executive Directors and ExCo members participate in the ADBS, all of whom are Material Risk Takers.

Bonuses are partially deferred, and 40% of each individual's bonus will be deferred into nil cost options over HL shares, vesting pro-rata over three years. These options are not subject to any further performance conditions (other than remaining in employment with the Group).

The remaining MRTs, not within the Fund Manager population, participate in the ADBS. Performance ratings are approved by the CEO and, once approved, are used to determine awards via a bonus award framework and line managers can apply discretion, within bonus range parameters, to take account of relative individual performance, available budget and peer relativity. Bonuses are partially deferred, and 40% of each individual's bonus will be deferred into nil cost options over HL shares, vesting pro-rata over three years unless de minimis applies – see below. These options are not subject to any further performance conditions (other than remaining in employment with the Group).

In line with HL's internal de minimis policy, if the variable reward for any MRT (not within the Executive Director, ExCo or Fund Manager population) is less than 33% of total remuneration, and if total pay is less than £500,000, bonus awards are paid in cash, subject to application of the HL's firm wide deferral arrangements.

Fund Managers, including the Chief Investment Officer, participate in a separate scheme designed to ensure they are appropriately incentivised in terms of linking their rewards to fund performance as well as aligning to market practice.

Aggregate bonuses will be determined primarily by reference to HLFM fund performance, although will also be impacted by HL Group and team performance, as well as an assessment of risk.

Individual bonus outcomes will then be determined by reference to personal financial and non-financial performance. Bonuses are partially deferred:

- 20% of total bonus deferred into nil cost options over HL Plc shares, vesting pro-rata over three years;
- 20% of total bonus deferred into HLFM fund units, vesting pro-rata over three years.

11.5 Long-term incentives - Sustained Performance Plan (SPP)

Hargreaves Lansdown operates the SPP annually, for the benefit of employees of the company and subsidiary companies. For the current year, awards under the SPP will be made to Executive Directors, and ExCo members. It

is intended that awards will normally be granted on an annual basis. In addition, the Remuneration Committee may approve awards to support retention of key management personnel from time to time.

Under the SPP, nil cost options over ordinary shares in the Company are awarded at the discretion of the Remuneration Committee and will be limited to 50% of base salary. Vesting of the options will be on the fifth anniversary of the date of the award subject to achievement of underpinning performance conditions over a three-year performance period.

Awards granted under the SPP this year, are subject to the following underpinning performance conditions:

- A requirement for average assets under administration (AUA) for the last complete financial year prior to the third anniversary of the date of grant to be above the average AUA for the last complete financial year prior to award;
- Maintenance of a satisfactory risk, compliance and internal control environment across the three year performance period; and
- Satisfactory personal performance throughout the three year performance period.

Executive Directors and ExCo members are required to accumulate minimum personal holdings in Hargreaves Lansdown plc shares. Under the shareholding guidelines, each individual has six years from appointment to accumulate a minimum shareholding in the Company equivalent to 200% of base salary for Executive Committee members and 300% of base salary for Executive Directors.

11.6 Quantitative remuneration information

In the performance year ending 30 June 2021, there were 53 Material Risk Takers, compared to a total of 40 in 2020. In total, Material Risk Takers received aggregate remuneration of £19,031,950 for the performance year ending 30 June 2021 (2020 – £16,667,000).

This figure is split between Senior Management and other Material Risk Takers as follows: 12 members of Senior Management received total remuneration of £10,365,357 and 41 other Material Risk Takers received total remuneration of £8,666,593.