HARGREAVES
LANSDOWN

HARGREAVES LANSDOWN PLC
PILLAR 3 DISCLOSURES

BASED ON FINANCIAL DATA AS AT 30 JUNE 2017

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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

On 1st January 2014, the European Union established a revised framework governing the amount and nature of capital that credit institutions and investment firms must maintain. The Directive is commonly known as the Capital Requirements Directive IV ("CRD IV") and 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 1	The minimum capital requirements of firms to cover credit, market and operational risk;
Pillar 2	Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk based assessment; and
Pillar 3	A set of disclosure requirements which enable the market to assess information on firm's risks, capital and risk management procedures.

The detailed assessment of the requirements under Pillars 1 and 2 are carried out within the Internal Capital Adequacy Assessment Process ("ICAAP").

The disclosure of this document meets the obligation of Hargreaves Lansdown Plc (the "Company") with respect to Pillar 3. The Pillar 3 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 Basel III capital requirements and on the management of risks faced by the Company and its subsidiaries (together the "Group").

The CRR rules, governing Pillar 3 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).

1.2 Group structure & composition

The accounting consolidation for the annual financial statements includes all entities controlled by Hargreaves Lansdown Plc. The prudential consolidation ("UK 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.

All trading subsidiaries are wholly owned with the exception of Library Information Services Ltd (78% owned) and Hargreaves Lansdown Savings Ltd, Hargreaves Lansdown owns 100% of 'A' Ordinary Shares and 92.5% of the Ordinary Shares. 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 subsidiaries.

Company name Prudential UK Consolidation Group:	Principal activity	Regulation CRD IV
Hargreaves Lansdown Plc	Non-regulated holding company.	CRD IV
Hargreaves Lansdown Asset Management Ltd	Providing FCA regulated products and services. A SIPP, ISA and platform operator, providing regulated advice and associated services.	Limited Licence IFPRU €125k firm
Hargreaves Lansdown Fund Managers Ltd	Providing FCA regulated products and services, specifically Alternative Investment Fund management and Collective Portfolio Management services.	Collective Portfolio Manager (CPM)
Hargreaves Lansdown Advisory Services Ltd	Provision of FCA regulated Advisory Services to retail and corporate clients.	Personal Investment Firm (PIF)
Hargreaves Lansdown Stockbrokers Ltd	Provision of FCA regulated products and services, principally execution only stock broking services.	Limited Licence IFPRU €125k firm
Hargreaves Lansdown Savings Ltd	Provision of digital deposit and peer-to-peer services. A start-up company not FCA regulated at 30.6.2016. (Trading name registered with FCA 6.7.2016, Authorised Payment Institution, 16.12.2016)	CRD IV
Library Information Services Ltd	Provision of funds library services to HL and third parties.	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	Regulation
Hargreaves Lansdown (Nominees) Ltd	Non-regulated nominee company into whose name securities or other properties are transferred in order to facilitate transactions, while leaving the customer as the actual owner.	
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	

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

1.3 Frequency

Pillar 3 disclosures will be made on an annual basis following publication of the Group's annual report.

1.4 Location

The Pillar 3 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.

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

2.1 Governance Structure

Key governance committees relating specifically to the maintenance and oversight of the risk and control environment are the Executive Committee, the Executive Risk Committee ("ERC"), CASS Committee, the Risk Committee, the Audit Committee and the Investment Committee. It is understood by the Chairs of all committees, both Board and Executive, that risk is a core theme which is evident in all committee discussions.

Key Features of the Controls & Governance Framework

There are three sub-committees of the Executive Committee that specifically support the management of the risk and internal control framework.

The Group maintains governance arrangements, organisational structures with clear lines of responsibility, effective risk reporting and internal control mechanisms, including sound administrative and accounting procedures. The key features of the Governance Framework are shown above.

The Board, comprising Non-Executive and Executive Directors, is the senior statutory board and retains overall responsibility for the strategic direction, management and business performance and risk management of the Group.

Certain matters not reserved are delegated to:

- Board committees: Risk, Remuneration, Investment, Nomination and Audit, with clearly defined terms of reference; and

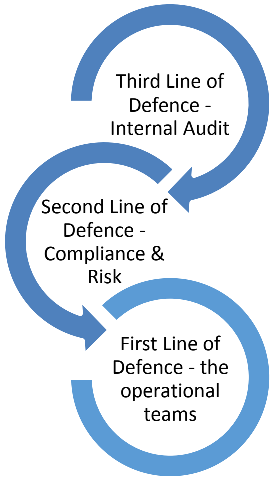
- The Executive Committee (Exco). Directors of each regulated subsidiary and appropriate senior managers who are responsible for the operations, performance, compliance and risk management of the respective entity.

Note: The Executive Directors and other Directors of regulated subsidiaries are Executive positions and shall together be referred to as "Directors" henceforth.

2.2 Internal Control Framework

The basis for the Internal Control Framework is the 'three lines of defence' model. Risk management is the responsibility of the operational teams which constitute the 'first line'. Oversight and guidance is provided by the 'second line' through the Risk and Compliance functions as well as from the HR, Financial Promotions, Compliance Monitoring, Client Protection, Financial Crime and Data Protection teams. Independent oversight of the internal controls of the business is the responsibility of the Internal Audit function.

The Internal Audit function reports to the Audit Committee, to ensure its independence from the business and is subject to an external effectiveness review on an annual basis.



Both the Internal Audit function and the Compliance Monitoring team perform a number of audits during the year covering the adequacy of controls and compliance with regulation.

Results from these assurance activities are reported to both the Executive Committee and the Board and are shared for action with the relevant operational teams. The progress against these actions is monitored and reported on by Compliance Monitoring and Internal Audit respectively.

The Group has an ongoing process for identifying, evaluating and managing the principal risks that it faces across the risk universe based upon risk appetites and monitoring via the risk reporting process. The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or reduced and, in some cases, transferred to third parties. The Directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control, and for reviewing its effectiveness. Internal controls are used to identify and manage, rather than eliminate, the risk of failure to achieve business objectives. This provides reasonable but not absolute assurance as to the effectiveness of the safeguards protecting the business against the risk of material error, loss or fraud.

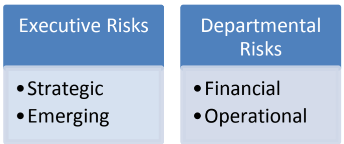
The Hargreaves Lansdown Risk Framework comprises a number of elements. The core elements for capturing, managing and then reporting and monitoring risks are the Risk Universe, Risk Appetite and Risk Reporting Process.

3 Risk Identification, Assessment & Management

Risk management is acknowledged to be a core responsibility of all colleagues at Hargreaves Lansdown. The oversight of risk and controls management is provided by Board committees and the Group Risk and Compliance functions.

3.1 Risk Universe

Hargreaves Lansdown has a comprehensive risk framework capturing both forward-looking risks (executive risks) and current business as usual risks (departmental risks). Risk materials are reviewed by the Board and executive management on a rolling basis with support from the second line business functions.



The Group has an agreed and documented risk universe, which sets out the high level risk categories to which the business is exposed and to which all risks are linked. Risks are captured both top-down and bottom-up with clear ownership. The risk universe ensures that there is completeness in the capture of risks and that there is consistency of treatment across all risk categories. The Executive and Departmental Risk categories are explained in the Risk Reporting section below.

Risk is reported on a monthly basis at the ERC and at every Risk Committee by the Risk Team, ensuring that there are appropriate levels of transparency, discussion and challenge.

3.2 Risk Appetite

Hargreaves Lansdown has agreed risk appetite statements and risk tolerance levels. The appetite statements cover all areas of the Risk Universe. These are agreed by the Board and are monitored and managed within the risk and control framework. Through the use of the Risk Framework the business balances risk and reward within the capital adequacy levels agreed within the Risk and Control Governance Framework by the Board under the ICAAP regime.

For each risk appetite statement the Board has agreed inner and outer limits, which set out the levels for formal escalation. A breach of the inner level requires escalation to the ERC (or the Treasury Committee if applicable), a breach of the outer level requires escalation to the Board Risk Committee.

A further layer of risk appetite management is in place through the operational risk limits agreed for the risks captured under the Operational Risk category. These are managed by the Risk Team, with oversight and approval from the ERC.

3.3 Risk Reporting Process

The Hargreaves Lansdown risk universe consists of Executive Risks and Departmental risks. The Executive Risks are the forward looking risk profile and are made up of two risk sets: strategic and emerging.

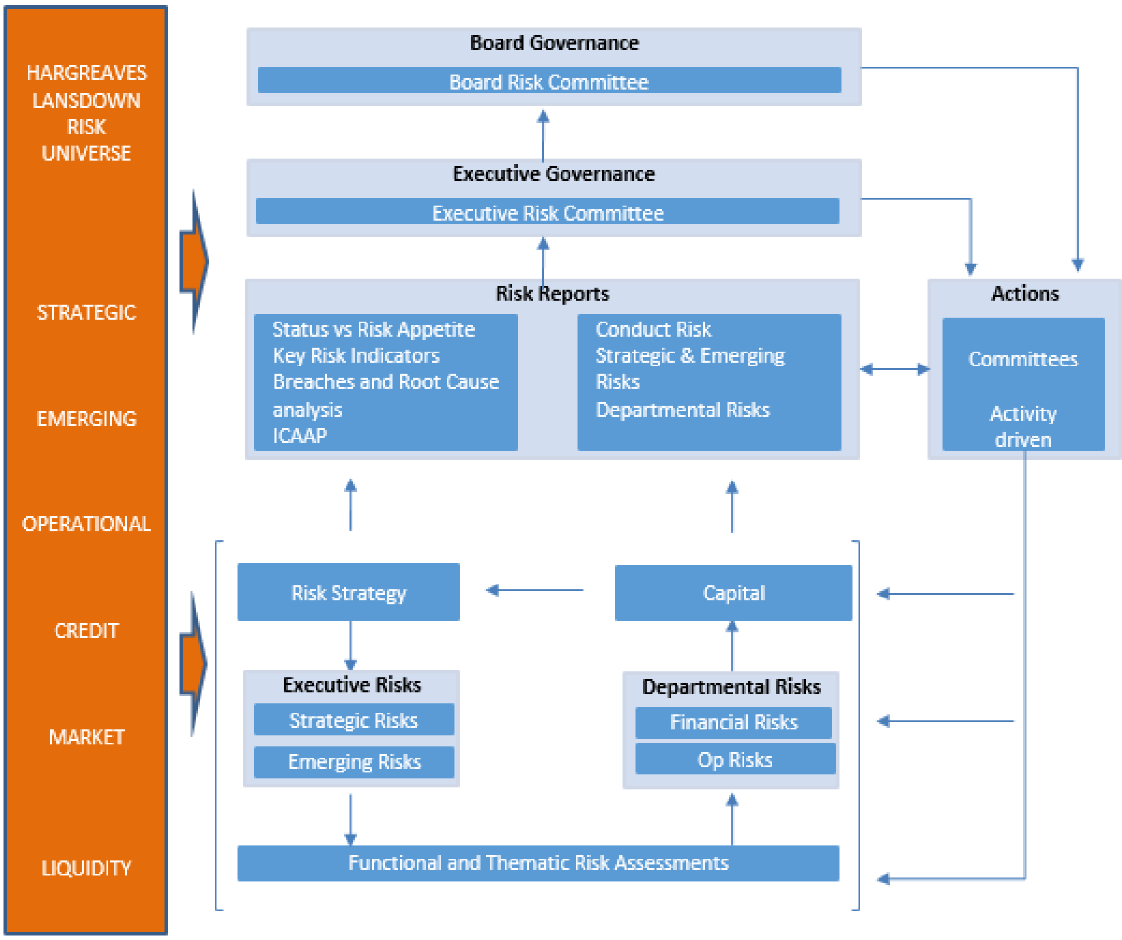
The Departmental Risks are the consolidated view of the risks to which the business is currently exposed and managed in the course of normal business activity.

The first line of defence owns and is responsible for managing risk. There are also teams with areas of specific focus to support the maintenance of a strong control framework; CASS Oversight and IT Security. In the second line the Compliance & Risk function includes teams focussed on anti-money laundering, fraud, compliance advice, compliance monitoring and risk.

A risk dashboard is produced monthly, which is central to the agendas at both the Risk Committee and the ERC. The dashboard reports on all the core elements of risk management, including; risks, risk appetite and risk events. Risk data is also reviewed in local management meetings.

The risk profile is reported in two outputs, both based on the same data and linked to the risk universe.

Risk Framework and Reporting Schematic



The second output is the ICAAP.

4 Own Funds

4.1 Capital Management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital as at 30 June 2017, as shown in the consolidated financial statements on page 107, was £306.9 million and this capital is managed via the net assets to which it relates. The capital position shown in the audited financial statements reconciles to the regulatory capital of the UK Consolidation Group as shown in table 2 (Article 437 (1) (a))

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, which is 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.

Tier 2 capital is unrealised gains arising on the fair valuation of equity instruments held as available for sale. The Group has had no Tier 2 capital since 30 June 2007.

The Group currently has no innovative Tier 1 capital instruments. The entire base of capital resources can be regarded as Tier 1 capital. In other words 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.

4.2 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 UK Consolidation Group reconciled to the capital shown in the audited consolidated financial statements.

Reconciliation of Own Funds as per audited financial statements and UK Consolidation Group regulatory Own Funds	**30-Jun 2017 £'000**	**30-Jun 2016 £'000**
Own funds as per audited Balance Sheet	**306,966**	**253,697**
Regulatory deductions:		
Trustee and Dormant companies (Note 1)	(5,548)	(4,332)
Foreseeable dividend (Note 2)	(97,131)	(123,846)
Intangible assets (Note 3)	(11,879)	(7,050)
Goodwill	(1,333)	(1,333)
Regulatory own funds	**191,075**	**117,136**
Risk weighted assets	**328,782**	**265,669**

Tier 1 ratio (Regulatory own funds/risk weighted assets)	**58.12%**	**44.09%**

Table 2: Reconciliation of Own Funds as per audited financial statements and UK Consolidation Group Own funds

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

Note: (2) Foreseeable dividend is the final and special dividend payable in October 2017relating to the financial statements for the year ended 30 June 2017. The total ordinary dividend pay-out ratio for the year was 65% (prior year 65% plus a special dividend of 26%).

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

For accounting purposes, software and 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.

5 Capital Adequacy

5.1 Regulatory Capital Requirement

The Pillar 1 capital requirement under CRD IV is the higher of i) the fixed overhead requirement 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 UK Consolidation Group and each of the qualifying regulated entities within the Group are required to meet the relevant Pillar 1 regulatory CRR set out in CRD IV.

The Group is required to meet further requirements of the Directive under Pillar 2 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 1 and Pillar 2 calculations supplemented by any ICG from the FCA.

Pillar 2 capital requirements are outside the scope of this disclosure document.

5.2 Capital ratios

Since 1st January 2014, the UK Consolidation Group and all qualifying regulated entities within the Group are required to meet the general own funds requirement under Pillar 1 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 1 requirements multiplied by 12.5. As at 30 June 2017 the Tier 1 ratio was 58.1% (30 June 2016 44.1%)

5.3 Pillar 1 minimum capital requirement calculation

Under CRD IV the Group calculates its Pillar 1 capital requirement as the higher of its fixed overhead requirement and the sum of the credit risk capital requirement, market risk capital requirement and settlement risk capital requirement.

Pillar 1 minimum capital requirement	30 June 2017 Minimum 8% own funds requirement £000's	30 June 2017 Risk weighted assets £000's	30 June 2016 Minimum 8% own funds requirement £000's	30 June 2016 Risk weighted assets £000's
Risk weighted exposure amounts for credit risk (see section 6.2)	13,765	172,058	10,243	128,033
Total risk exposure amount for operational risk (OPR)	-	-	-	-
Total credit risk exposure amount for settlement/delivery (see section 6.3)	149	1,868	752	9,400
Total market risk exposure amount for position, foreign exchange and commodities risks	0	0	48	602
Additional risk exposure due to fixed overheads (Note 1)	12,388	154,855	10,211	127,634
Pillar I requirement – Fixed Overhead Requirement	**26,303**	**328,782**	**21,254**	**265,669**
Regulatory own funds	191,075		117,136	
Excess of own funds over Pillar I capital requirement	164,722		95,883	
Coverage relative to financial resources	726%		551%	

Table 3: Pillar 1 capital requirement calculation

Note 1: Additional risk exposure due to fixed overheads is calculated as the fixed overhead requirement less credit risk, market risk and settlement risk.

6 Credit Risk

6.1 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.

Settlement risk is substantially mitigated as a result of the delivery versus payment mechanism whereby if a counterparty fails to make payment, the securities would not be delivered to the counterparty. In that instance, the securities could be sold in the market and therefore the economic substance of the transaction is that securities serve as collateral in the case of delivery versus payment for trade receivables. Client side settlement risk is mitigated by the procedures and controls operated within the settlements function. As a result, the risk exposure is effectively limited to trades that are past the due settlement date and an adverse movement between the agreed settlement price and current market value.

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. The credit risk adjustments, shown in table 4, include intangible assets (deducted from tier 1 capital), goodwill (deducted from tier 1 capital) and unsettled trades.

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

Analysis of the Groups credit risk capital requirement	FCA category	Balance sheet	Dormant and Trustee co's	Uk Consolidation Group	Credit Risk Adjustments	Credit Risk exposure	Analysis of exposures by risk weighting						
							20%	50%	75%	100%	150%	250%	Total
Investment in subsidiaries	N/A deducted in full from CAT1	0	12	12	(12)	**0**	0	0	0	0	0	0	**0**
Goodwill	N/A deducted in full from CAT1	1,333	0	1,333	(1,333)	**0**	0	0	0	0	0	0	**0**
Other Intangible assets	N/A deducted in full from CAT1	11,879	0	11,879	(11,879)	**0**	0	0	0	0	0	0	**0**
Property,Plant & Equipment	Other items	11,646	0	11,646	0	**11,646**	0	0	0	11,646	0	0	**11,646**
Deferred tax assets	Central governments	2,053	0	2,053	0	**2,053**	0	0	0	0	0	2,053	**2,053**
	Corporates	6,224	0	6,224	0	**6,224**	0	0	0	6,224	0	0	**6,224**
	Institution	104,966	0	104,966	(76,225)	**28,741**	0	0	0	28,741	0	0	**28,741**
Trade and other receivables	Institutions - Term deposit cash	180,000	0	180,000	0	**180,000**	120,000	60,000	0	0	0	0	**180,000**
	Retail	313,812	0	313,812	(253,133)	**60,679**	0	0	60,679	0	0	0	**60,679**
	Other items	23,841	0	23,841	(23,817)	**25**	25	0	0	0	0	0	**25**
Cash and cash equivalents	Institution	81,417	(5,562)	75,855	0	**75,855**	75,855	0	0	0	0	0	**75,855**
Investments		4,119	0	4,119	0	**4,119**	0	0	0	4,119	0	0	**4,119**
Derivative financial instruments		259	0	259	(99)	**160**	0	0	0	160	0	0	**160**
Collective Investment Undertakings		0	0	0	1,350	**1,350**	0	0	0	1,350	0	0	**1,350**
Total		741,550	(5,550)	736,000	(365,148)	**370,852**	195,879	60,000	60,679	52,240	0	2,053	**370,852**
Total risk weighted assets							39,176	30,000	45,509	52,240	0	5,134	**172,058**
Total credit risk capital requirement at 8%							3,134	2,400	3,641	4,179	0	411	**13,765**

Table 4: Credit risk capital requirement and risk weighted assets as at 30 June 2017 reconciled to audited financial statements balance sheet assets

Note 1: Credit risk adjustments in trade and other receivables relate to trades that are due to settle.

External Credit Assessment Institutions (ECAI)

The Group uses S&P to assess the credit quality of exposures which have an external credit rating. These are used for Institutional cash and cash equivalents.

Credit Quality Step	Credit Rating	Exposure Value (£)
1	AAA to AA-	35,000
2	A+ to A-	220,855
3	BBB+ to BBB-	0
Cash & Cash equivalents Total		**255,855**
Unrated		114,997
Total		**370,852**

Table 5: Exposure values as at 30 June 2017

6.3 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 2017 the settlement/delivery risk requirement was £149k

6.4 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 1 under the FCA's standardised approach to operational risk (IFPRU 5.1.1) and has not done so.

6.5 Concentration risk

Concentration risk is a component of credit risk, resulting from a concentration of exposures in particular sectors or geographic areas. Large exposures are few and far between in the Group's books, particularly since its main non-trading book counterparty exposures are incurred in the ordinary course of settlement.

The business of the Group is undertaken within the financial services sector and predominantly with UK based clients and financial institutions. The risks arising are therefore concentrated within this business sector and geographical location. The client base is broad without significant exposure to any individual client or group of clients.

The Group is exposed to risks arising from a concentration of own funds within banking institutions. The risk is carefully monitored and assessed by the Treasury Committee, in line with the Treasury Policy agreed by the Board. This risk is modelled in our Pillar 2 calculations and an appropriate amount of capital is held.

7 Market Risk

7.1 Market risk overview

Market risk is the risk of an impact on the Group's financial position due to movements in interest rates, exchange rates or other stock market movements.

The Group is exposed to business risk arising from a downturn in stock markets and the subsequent fall in revenue from assets under administration.

7.2 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 2017 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £81.4 million comprising cash and cash equivalents.

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.

7.3 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.

7.4 Trading book position risk

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

8 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 3.

As a Limited Licence Group, the Group is not required to hold capital at Pillar 1 under the FCA’s standardised approach to operational risk and has not done so. However, in assessing 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 2 analysis to calculate an appropriate capital figure. The Group maintains insurance against a number of major operational risks.

9 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 Group may suffer reputational damage through the materialisation of any of the risks in this document; therefore a separate appetite for reputational risk has not been set.

10 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 2 capital requirement in respect of this risk by projecting the effects of this scenario and also by considering the mitigating action which could be taken to reduce the effect.

11 Liquidity risk

Liquidity risk is defined as the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Group assesses liquidity risk in the ICAAP by modelling the impact of stress testing and scenarios, in particular relating to the operational risks identified, against the base case cash flow forecast. The timing of cash outflows and inflows is relatively fixed and the majority of capital is represented by cash and hence can be considered a readily realisable asset.

The Group has always maintained a healthy surplus of financial resources, which are represented to a large extent by cash or readily realisable assets. Liquidity risk is managed within the scope of the firm's appetite for liquidity risk and the Group Treasury Policy and the Liquidity Policy. The liquidity management process and framework, enables the Group to identify, measure, monitor and manage liquidity risk.

12 Remuneration Code Disclosure

Role of the Remuneration Committee

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

The Remuneration Committee is therefore responsible for determining the Remuneration Policy for the remuneration of the Executive Directors of the Company and of the subsidiary companies, the Chairman, other members of executive management and all other staff who are deemed to be 'Material Risk Takers' or 'Identified Staff'. The policy is determined with due regard to the interests of the Company, the shareholders and the Group. No individual plays a part in any discussion about his or her own remuneration.

The performance measurement of the Directors and key members of senior management and the determination of their annual remuneration packages are also undertaken by the Committee. For individuals below Director level, the Committee has delegated authority for setting individual remuneration packages to a sub committee consisting of the Chief Executive Officer, Chief People Officer and Group Risk and Compliance Director, which reports to the Committee on its decisions. The Committee also ensures that the remuneration relationship between the Directors and senior employees of the Group is appropriate and that the Remuneration Policy complies with the FCA Remuneration Code. Any exceptional remuneration arrangements for senior employees are advised to the Committee.

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 and the Non-executive Chairman of the Group. There were six scheduled meetings during the year and additional ad hoc meetings where required.

During the year the Committee appointed and received independent remuneration advice from Deloitte LLP. Following a competitive tender process the Committee also engaged Willis Towers Watson to provide market benchmarking for the Directors and selected senior roles below director level, they also provided an update on executive remuneration market trends.

Remuneration policy

Our Remuneration Policy is designed to ensure that remuneration supports the Company's strategic objectives, is appropriately positioned against the external market, 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.
- **Annual Performance Bonus -** rewards achievement of the Group's business plan, key performance indicators and an individual's personal contribution.
- **Pension -** provides adequate pension saving arrangements for Directors and staff.
- **Benefits -** An 'across the board' benefits package is available both to Directors and staff.
- Sustained Performance Plan – long term incentive plan for directors - from 1 July 2017.

Design of variable remuneration – Annual Performance Bonus

The level of Annual Performance Bonus payable to Directors (including both Executive Directors and other Directors), is assessed against a combination of financial/growth measures, client service measures, strategic objectives and individual objectives over a one-year period. There is no prescribed weighting of particular metrics, but financial performance is central to the decision-making process.

Group performance has been considered in relation to the following measures:

Growth measures	**Client Service measures**	**Strategic measures**
• Net New Business	• Net Promoter Score	• Developing client service
• Net New Clients	• Client Retention	• Developing capabilities
• Profit Before Tax	• Client Service Measure	• Business efficiency

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

- The extent to which market movements, investor sentiment, interest rates and regulation, all of which are beyond the control of the Directors, have impacted the performance. This may result in either reductions or increases in the rewards that would otherwise have been granted;
- The extent to which management has operated within the agreed risk parameters; and
- The extent to which the bonus outcome reflects the overall performance of the business in the context of shareholder experience.

40% of the Annual Performance Bonus is subject to compulsory deferral into nil cost options for a period of three years. Dividend alternatives will accrue on deferred awards and will be paid at the time of vesting.

Any unvested deferred awards are subject to a formal malus mechanism. The non-deferred element of bonus awards are subject to clawback for three years from the date of award.

The remainder of the Material Risk Takers who are employees of the Group may be paid a discretionary bonus for each financial year of the Company, with no element of deferral. The same criteria are used as listed above for determining the overall size of the bonus pool. Bonuses are then allocated to individuals in line with a bonus matrix reflecting their role level and performance rating.

Bonus payments are non-pensionable.

Long-term incentives

Long term incentives have previously been provided by the Long Term Incentive Plan (“LTIP”), however no LTIP awards were granted during the year ended 30 June 2016 or the year ended 30 June 2017.

A new Sustained Performance Plan was approved by shareholders at the AGM in October 2017, and will be used to provide long-term incentives to Directors in future years.

Quantitative remuneration information

In the performance year ending 30 June 2017, on the basis that Hargreaves Lansdown is one business unit, there were 78 Material Risk Takers (2016 – 72) who received total remuneration of £18,320,000 (2016 – £27,018,645).

Hargreaves Lansdown is a Tier 3 firm for Remuneration Code purposes.