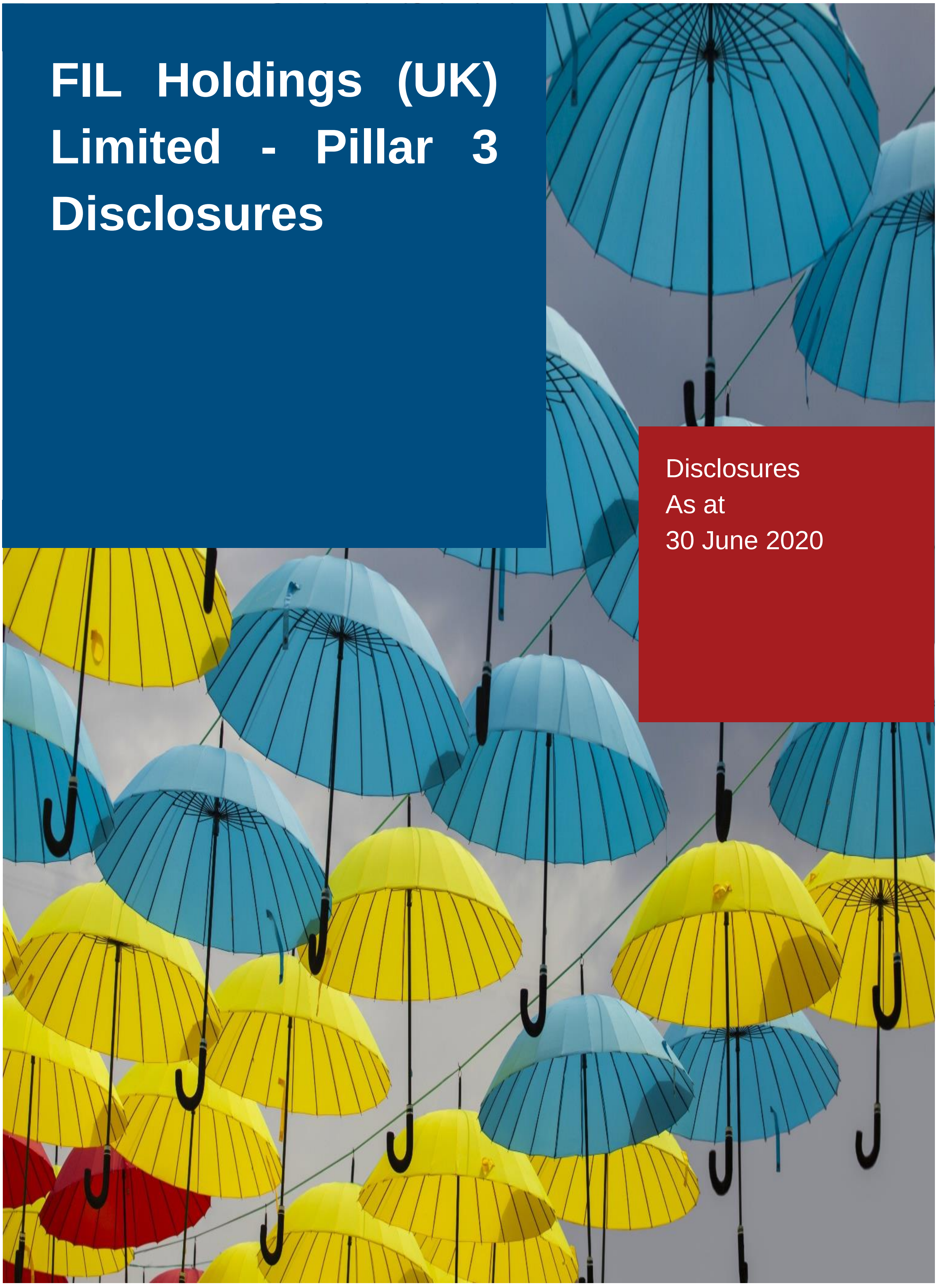
FIL Holdings (UK) Limited - Pillar 3 Disclosures

Disclosures
As at
30 June 2020



Contents

1. Introduction

1.1 About this document

This document has been compiled to explain the basis of preparation and disclosure of certain capital requirements for FIL Holdings (UK) Limited (FHL or the FHL Group) and to provide information about the management of certain risks and for no other purpose. The companies forming the FHL Group are listed in section 1.6.

The figures used in the disclosures reflect the audited financial statements as at 30 June 2020.

The disclosures have been reviewed and approved by Board of FHL.

The Pillar 3 disclosures focus on risk management at a corporate level and therefore do not give any details of fund or product related risk management activities.

1.2 Background

FHL is part of the FIL Limited Group of companies, known as Fidelity International, or FIL, and is the consolidated UK parent company. FIL, a privately-owned company domiciled in Bermuda, provides the FIL Group's head office and is the ultimate holding company. FIL is regulated by the Bermuda Monetary Authority and is required to prepare a capital adequacy assessment for the consolidated FIL Group.

Fidelity International offers world class investment solutions and retirement expertise and has the commitment and resources to provide the investment expertise, technology and service innovation needed to help its clients achieve their financial goals.

As part of this global investment and retirement savings business, the FHL Group serves a diverse range of clients, including pension funds, sovereign wealth funds, financial institutions, insurers, wealth managers and private individuals.

FHL is a financial holding company and does not undertake any regulated investment activity itself. Business is conducted through the subsidiaries listed in section 1.6.

Within FHL there are no material deposit-taking, market-making or investment banking entities.

1.3 Responsible Investment

It is Fidelity International's duty, as part of its obligations as a fund manager, to be satisfied that mutual funds and segregated accounts managed by Fidelity International, including by FHL, only invest in companies which are managed responsibly, and which are in compliance with the legal regimes to which they are subject. This responsibility is an important element of Fidelity International's commitment to always act in the best interests of its clients.

Fidelity International's 'Responsible Investment Policy' document details its approach towards the stewardship of investments made for clients. Information is provided on Fidelity International's approach to engagement and integration of environmental, social and governance (ESG) issues into the investment process, as well as its approach to remuneration policy, voting, take-over bids and returns to investors.

1.4 Regulatory context

The FHL Group policy is to meet the Pillar 3 disclosure requirements contained in Articles 431 to 455 of the EU's CRR (Capital Requirements Regulation).

The CRD framework consists of three 'pillars':

- **Pillar 1** sets minimum capital requirements by providing rules for the measurement of credit, market and operational risk.
- **Pillar 2** requires firms to conduct an internal assessment of capital adequacy based on the firm's actual risk profile to determine whether

additional capital is required to cover these risks.

- **Pillar 3** focuses on disclosure requirements, including the key information required to assist external parties in their assessment of the capital adequacy of the organisation.

FHL and its regulated subsidiaries, known collectively as the FHL Group, are regulated for both prudential and conduct purposes by the Financial Conduct Authority (FCA). The FCA is responsible for implementing the CRD in the United Kingdom.

1.5 Basis of preparation

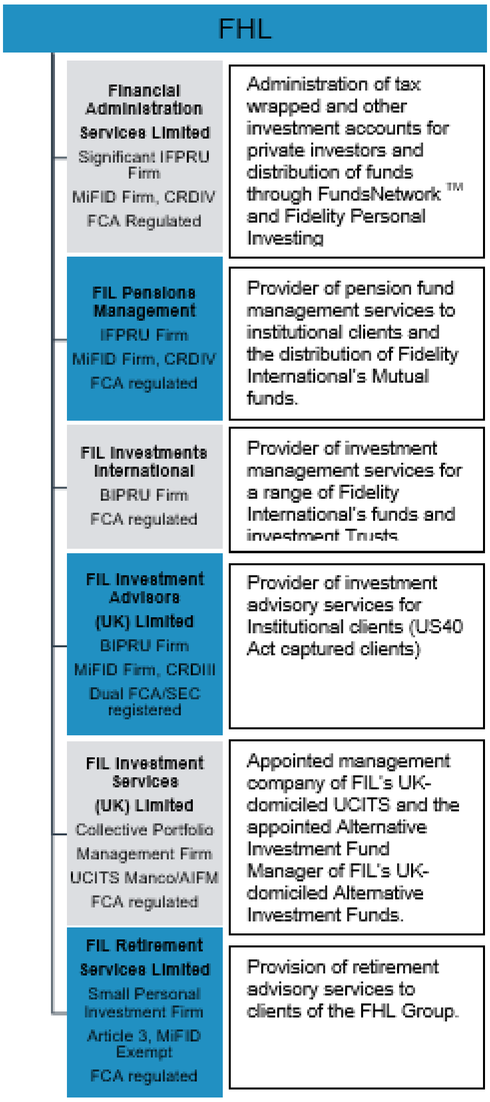
The disclosures included in this document relate to FHL on a consolidated basis. The consolidation of the financial statements prepared under UK GAAP as at 30 June each year, includes FHL and its wholly owned and majority-owned subsidiaries. The consolidated statutory balance sheet includes all subsidiary undertakings which, in the opinion of the Directors, principally affect the consolidated profits or assets of the FHL Group. A list of the principal FHL Group subsidiaries can be found in section 1.6.

Prudential consolidation for regulatory purposes is on the same basis as for the statutory Group. Control is achieved where the FHL Group has the power to govern the financial and operating policies of an investee entity to obtain benefits from its activities. There is no current or foreseen material, practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

There are no subsidiaries where actual own funds were less than the capital requirements as at 30 June 2020. It is FHL's policy to maintain sufficient liquidity to enable it to inject capital rapidly into subsidiaries to meet all reasonably foreseeable requirements and scenarios.

1.6 FHL and its principal subsidiaries

The principal subsidiaries that primarily affect the consolidated profits or net assets of the FHL Group are shown below:



All the above companies are incorporated in England and Wales and the proportion of nominal issued shares held in the FHL Group is 100%, except for FIL Investments International (98%) where remaining shares are held by the FIL Group.

1.7 Materiality

Regulations permit the omission of one or more of the required disclosures, if that information is immaterial. A disclosure is deemed to be material if the omission of that information would likely change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where a disclosure is considered to be immaterial, this has been stated.

1.8 Frequency of disclosure

These disclosures are required to be made on an annual basis, in line with relevant regulations. If appropriate, some disclosures will be made more frequently.

FHL has an accounting reference date of 30 June and disclosures will be published within 6 months of the financial year end. The FHL Board has approved a change to move the financial year end from 30 June to 31 December commencing 1 July 2020. Going forward the accounting reference date will be 31 December, and therefore the next disclosure under Pillar 3 will be made in respect of the period ended 31 December 2020 and will be published no later than June 2021.

To access the disclosures published on the Fidelity UK website:

Click here

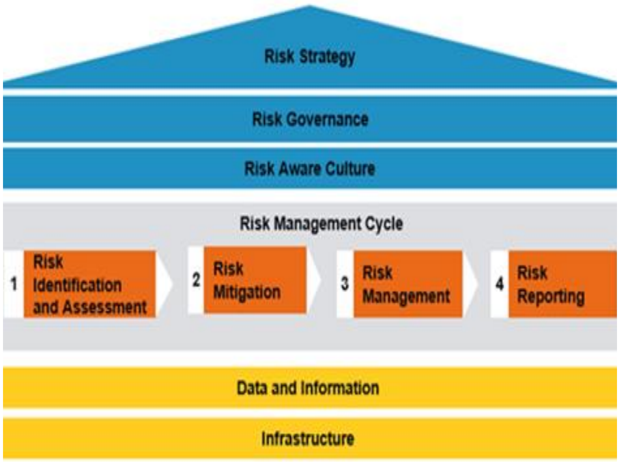
2. Risk Management

2.1 Risk management objectives and policies

Risk management is defined across FHL by the Enterprise Risk Management (ERM) framework. The framework supports the effective identification of risks, potential events and trends which may significantly affect FHL's ability to achieve its strategic goals or maintain its operations and aligns to the FIL Group framework.

The ERM framework includes:

- the application of a common enterprise-wide risk management framework, activities and processes across the organisation.
- clear assignment of roles, responsibilities and accountabilities for risk management.
- the effective use of appropriate risk identification, mitigation and management strategies.
- the integration of relevant, reliable and timely risk management information into reporting and decision-making processes; and.
- the identification and assessment of existing and uncertain future events that may influence the achievement of business plans and strategic objectives.



2.2 Risk strategy

FHL's risk strategy is to ensure that effective risk management is embedded in all core operating and decision-making processes, and that existing and emerging risks are identified and managed within acceptable risk limits for financial risk and risk tolerances for non-financial risks.

FHL's risk strategy is supplemented by a risk appetite framework, including risk appetite statements and related metrics, which reflect the aggregated level of risk that the organisation is willing to assume or tolerate to achieve its business objectives.

FHL's risk management framework includes both qualitative and quantitative monitoring of risk metrics, escalation processes and action management plans to ensure that the organisation remains within risk appetite statements, limits and tolerances.

2.3 Risk governance

The FHL Board has ultimate responsibility for risk management within the organisation. The FHL Board is accountable for ensuring that appropriate governance structures and internal controls are implemented to comply with rules, laws and regulations and FIL Group policies; and that these are consistent with protecting clients and customers and are in the long-term interests of FHL's shareholders.

The FHL Board is responsible for the supervision, leading and controlling of its subsidiaries. It is responsible for the implementation of the ERM and has created a governance structure to provide oversight and direction to the business through delegated authorities to designated committees as represented in section 4. The committees inform the FHL Board of the risk profile and effectiveness of the risk management framework. The FHL Board receives matters escalated for consideration from subsidiary boards and committees.

The risk management structure at FHL is designed on a 'Three Lines of Defence' basis to ensure clear accountabilities for all risk management activities in the organisation.

The 1st Line of Defence is formed of risk owners, owning all risks emerging from their respective business and/or processes and being accountable for managing, monitoring and mitigating these risks on an ongoing basis in line with established policies, tools and procedures.

The 2nd Line of Defence, which includes the Global Risk Team and other risk-type controllers, such as Compliance, comprises an independent risk and control layer responsible for the design of core enterprise and specific risk-type frameworks, methodologies and tools, and provides risk oversight.

The 3rd Line of Defence is Internal Audit, which provides independent assurance on the adequacy of the design and effectiveness of systems and controls in FHL.

The UK Chief Risk Officer is responsible for the overall management of the risk management system. She provides oversight of all UK businesses and ensures adequacy of risk management activities across the FHL Group in line with the FCA's SYSC (Senior Management Arrangements, Systems and Controls) requirements.

2.4 Risk aware culture

FHL has adopted an approach to promote, embed and measure a strong risk aware culture across the organisation, including reinforcing individual behaviours and capabilities that are aligned to the FIL Group's core values and beliefs. This approach also includes alignment of compensation and performance structures which incentivise risk accountability and the right risk behaviours.

2.5 Risk identification and assessment

The FHL Group risk taxonomy provides a consistent approach for the classification, identification and definition of risk. It covers all relevant risks across the organisation and aligns to the FIL Group risk taxonomy.

As part of the risk management cycle, a risk assessment is conducted to ensure understanding of risk levels, including materiality and impact. Identifying and understanding root cause, materiality drivers, themes and impacts of individual and aggregated risks are considered throughout the risk assessment process.

2.6 Risk mitigation and management

Effective risk management is crucial for ensuring levels of residual risk are managed within risk appetite and includes several risk mitigation strategies.

Risk-type controllers are responsible for prescribing, monitoring and testing minimum control requirements aligned to FHL's risk appetite for that risk-type. Risk owners are expected to meet the minimum control requirements and to develop and implement additional controls to appropriately manage their specific risks and risk levels.

2.7 Risk reporting

On a regular basis the FHL Board (or the FHL Audit and Risk Committee, acting on behalf of the Board) receives risk management information which includes but is not limited to:

- Risk profile, including top risks
- Risk appetite breaches
- Key risk and control indicators
- Material risk events or issues
- Regulatory and capital reporting

2.8 Board declaration

The FHL Board is responsible for the effectiveness of the risk management framework and the setting of risk appetite targets and tolerances. The FHL Board considers the current risk management arrangements to be adequate with regard to FHL's risk appetite, risk profile and strategy.

3. Risk Profile

3.1 FHL's risk profile

The FHL Board, through its established governance structure, monitors the Group's risk profile and receives formal reports concerning the most material risks. These risks have been compared to the FHL Group risk taxonomy and UK risk register to ensure that they continue to represent the most material risks facing the business.

FHL is exposed to the following risks:

Key Risks	Risk Types
Financial	Counterparty / credit risk Market risk Liquidity risk Pension risk
Operational	Operational delivery risk Duties to customer risk Employment practices & workplace safety Legal risk Oversight risk Regulatory risk Financial crime risk Financial reporting risk Information security risk Business process disruption risk Record & data management risk Model risk End User Computing (EUC) Risk Technology failure risk
Investment	Fund counterparty / credit risk Fund market risk Fund liquidity risk
Strategic	Market dynamics risk Business strategy risk Business performance risk

Financial risk includes credit risk, market risk, liquidity risk and pension risks.

- **Counterparty/Credit risk -** the risk of a counterparty failing to meet their financial obligations to FHL when due.
- **Market risk** - the risk of an adverse financial impact due to changes in fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices.
- **Liquidity risk** - the risk that FHL, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost.
- **Pension risk -** the risk that the liabilities of defined benefit pension plans are not fully funded, i.e. the binding provision of defined benefit pension scheme could not be covered by corresponding assets or a shortfall in value of pension plans assets.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This covers a broad set of risks which includes:

- **Operational delivery** - Risks arising from issues in the delivery of FHL's business operations including failures in our customer and fund-level transactions e.g. transaction capture, those associated with the use of vendors and suppliers, unclear or untimely internal communication, building damages caused by terrorism and natural disasters, fund accounting errors and change programme risks.
- **Duties to customers** - Risks arising from failure to ensure fair, impartial and suitable treatment of customers, including unfair customer treatment, misleading customer communication and investment compliance breaches.
- **Financial crime** - Risks arising from internal and external financial crime, including bribery and corruption, fraud, money laundering and terrorist

financing, embargos/sanctions and market abuse.

- **Information security** - Risks arising from losses of sensitive information, including cybersecurity, unauthorised and inappropriate access and information asset security.
- **Technology failure** - Risks arising from significant failures of FHL's technology.
- **Business disruption** - Risk that there is a business disruption that adversely impacts FHL's customers, people and/or processes.

Investment risk arises in the investment funds managed by FHL. It is borne by investors, provided FHL manages the funds within limits and in line with investor expectations. FHL actively manages communications and disclosures with investors to ensure that the risk profile of the funds is transparent and understood by those who ultimately bear this type of risk. The risks are monitored through risk indicators to ensure the funds are not exposed to significant credit or concentration risk with respect to their primary counterparties.

Strategic risk is the risk associated with an inappropriate or non-performing strategy. Typically, this risk affects the revenues and/or profitability of FHL or results in opportunity costs which are not directly mitigated by capital.

Group risk is the risk that the financial position of FHL may be adversely affected by its relationships, financial and non-financial, with other entities in the same group or by risk which may affect the financial position of the whole group e.g. reputational contagion. Whilst FHL is part of the wider FIL Group, it is financially independent from a capital and liquidity perspective. FHL does not rely on other FIL Group entities for financial support, however, there is an option to request further investment or short-term funding from FIL Limited if necessary.

Concentration risk spans multiple risk categories and is the risk of large individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors (sector, economy, geography, location, instrument type). FHL does not have significant concentrations of clients, fund strategies or balance sheet exposures, and the risk is mitigated through exposures being diversified across a range of approved counterparties in accordance with agreed limits.

3.2 Other risks

The following risks have also been considered and are not currently deemed material to FHL:

Residual risk (a sub-category of credit risk) is the risk that recognised risk measurement and mitigation techniques used by the credit institution prove less effective than expected. This risk is not considered to be applicable, as FHL does not have a loan book.

Securitisation risk is the risk that the capital resources held by the financial institution in respect of assets which it has securitised are inadequate with regard to the economic substance of the transaction, including the degree of risk transfer achieved. FHL does not undertake securitisation and this risk is not applicable.

Insurance risk is the risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, undertaking insurance business or providing underwriting services. The FHL Group does not undertake insurance business or otherwise provide underwriting services and so this risk is not applicable.

4. Governance Structure

4.1 FHL Board and committees

The structure of the FHL Board and its committees as at 30 June 2020 is shown in the table below:

The FHL Board is responsible for the oversight, leading and controlling of its subsidiaries. Furthermore, the Board is also responsible for the setting of the strategy and risk appetite, for maintaining an effective and efficient system of internal control and the monitoring of business performance. It has adopted a formal schedule of matters reserved for Board approval that details key aspects of the company's affairs that cannot be delegated. The Board receives matters escalated for consideration from subsidiary boards and committees. Any issues arising that have wider implications for the FIL Group or require a FIL group-wide approach are escalated by the FHL Board to the FIL Board for consideration.

The FHL Board delegates certain responsibilities to standing committees, which assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management. The committees are as follows:

The FHL Audit and Risk Committee (ARC) meets at least quarterly and is responsible for risk oversight, providing independent and objective assurance to the FHL Board on the effectiveness of the FHL Group's system of internal control, including financial, operational, compliance and risk management. It recommends risk appetite to the FHL Board and monitors adherence to pre-defined levels. The Committee also oversees relevant regulatory, tax and legal issues, along with all other emerging matters that the FHL Board deems relevant. It receives reports from Internal Audit, Compliance, Risk Management, Finance and the external auditors, PricewaterhouseCoopers LLP (PwC). The Committee membership is independent of line management, comprising two independent non-executive directors, as well as a non-independent non-executive director who is the Chairman. The UK heads of oversight (Audit, Compliance and Risk) are standing attendees. Where necessary the FHL ARC escalates matters of note to the FIL Audit and Risk Committee for consideration.

The UK Conflicts of Interest Oversight Forum meets at least quarterly and is responsible for assisting the FHL Board to implement the UK and FIL Group Conflicts of Interest policy and to remain compliant with FCA rules relating to conflicts of interest. The Forum does so by reviewing management steps taken to identify conflicts and to determine materiality of policy exceptions and violations. The Forum also reviews management information relating to conflict mitigation and the effectiveness of related procedures, as well as ensuring that the policy remains adequate and effective.

The CASS Oversight Forum is responsible for the governance, oversight and control of FHL Group's client money and customer asset arrangements and associated control framework. The Forum meets formally on a monthly basis or more often as and when determined necessary, at the direction of the CASS Oversight Officer.

The FHL Board receives quarterly updates from the board of the six principal regulated subsidiaries detailed in section 1.6.

These subsidiary Boards are responsible for the management of business-specific activities carried out by each entity. Each of these entities has delegated certain responsibilities to standing committees, which assist the board in carrying out its functions, and has appointed a Chief Executive Officer with delegated authority to run the business on a day-to-day basis and to ensure compliance with FCA rules and Group policies.

In addition, the FHL Group draws on a number of FIL global resources and committees to provide specialist expertise and services. These include key control functions such as Risk, Internal Audit and Compliance. Central functions such as Finance, Technology and Human Resources have vital roles to play in the sound and prudent management of the business. Full escalation routes have been established between each of these committees and boards.

4.2 Board membership

The FHL Board is chaired by an executive Chairman. He is responsible for developing, driving and implementing the strategy approved by the Board; for financial performance against plans; and for maintaining an effective and efficient system of internal control, including financial, operational, compliance and risk management.

The FHL Board is comprised of senior executives with management responsibility for business decisions and compliance with the regulatory system. The Board also includes three independent non-executive directors and two non-executive Directors whose role is to constructively challenge and monitor the management team in delivering the agreed strategy in line with agreed risk appetite limits approved by the FHL Board. The independent non-executive directors contribute broad business and risk experience and external insight to the FHL Board discussions alongside independent and judgment.

When considering the appointment and succession of Directors, the FHL Board gives due consideration to the collective suitability of the Board and that of the individual Directors. Relevant factors that will be considered include skills and experience; honesty and integrity; and having sufficient available time to devote to the role.

The FHL Board conducts periodic self-assessments of the Board as a whole and of individual Board members, as well as of its governance practices, and takes corrective actions or makes improvements as deemed necessary or appropriate.

FIL Group has a ‘Diversity at Work’ policy for all employees, which has been adopted by FHL. FHL believes that its success is based on maintaining and developing an environment where employees are recognised as individuals and individuals are not discriminated against. The FHL Board recognises the value of diversity and has signed up to HM Treasury’s ‘Women in Finance Charter’.

The FHL Board members are listed in the table below.

Name	Position	Directorships		
		FHL	FIL	Non-FIL
Michelle Cracknell	Independent Non-Executive Director	1	-	7
Peter John Horrell	Chairman and Chief Executive Officer	3	-	1
Simon Haslam	Non-Executive Director	1	-	2
Cara Hewitt	Chief Financial Officer	1	-	1
Anthony Stephen Lanser	Chief Operating Officer	6	-	-
Teresa Robson-Capps	Independent Non-Executive Director	2	-	1
Dominic Rossi	Non-Executive Director	4	8	2
David Avery Weymouth	Independent Non-Executive Director	2	-	4

5. Capital/Own Funds

5.1 Capital resources

Tier 1 capital is the highest-ranking form of capital and includes permanent share capital, retained profits and other reserves. The FHL Group's capital resources on a consolidated basis comprise Common Equity Tier 1 capital only. The audited capital position as at 30 June 2020 is shown in the table below:

FHL Prudential Consolidated Capital Position	30-Jun-20 £m
Tier 1 Capital	
Permanent share capital and related share premium accounts	56
Retained profits	316
Other reserves	142
Regulatory adjustments	
Computer software accounted for as intangible assets	(33)
Own Funds	**481**
Less: Pillar 1 regulatory capital requirement:	
Fixed overhead requirement ('FOR')	176
Total Pillar 1 Regulatory capital requirement	176
Total Pillar 1 Capital surplus	**305**

During the year to 30 June 2020 the FHL Group, and all regulated entities within the FHL Group, held own funds in excess of their regulatory capital requirements.

5.2 Full reconciliation of own funds items to audited financial statements

In accordance with Article 437(1) (a), a reconciliation of regulatory own funds items to the balance sheet in the audited financial statements as at 30 June 2020 is disclosed in Appendix 1. The reconciliation includes all items that are components of, or are deducted from, own funds. Each item is referenced in the table and is also shown in Appendix 2, in line with the CRR disclosure requirements.

5.3 Disclosure of specific items on own funds

In order to meet the requirement for disclosure of additional items on own funds, the own funds disclosure template and the alignment in accordance with the audited financial statements is provided in Appendix 2.

5.4 Main features of Common Equity Tier 1 capital instruments

Article 437(1) (b) requires disclosure of the main features of Common Equity Tier 1 instruments. The capital instruments' main features template is attached in Appendix 3.

5.5 Asset encumbrance

Encumbered assets are defined as assets pledged as collateral or that are restricted to be used for secured funding, for example, mortgage loans pledged in favour of covered bond holders, securitised assets and collateral for repos and securities financing transactions.

On 3 March 2017, the EBA submitted to the European Commission, draft Regulatory Technical Standards on the disclosure of encumbered and unencumbered assets under Article 433 of the CRR for approval. The standard was approved by the European Parliament in December 2017 and in accordance with the new regulation, the relevant disclosure templates are provided in Appendix 4.

6. Capital Adequacy

6.1 Calculation of capital requirements - Pillar 1

The CRD requires FHL to report the Pillar 1 capital requirements under the standardised approach for credit and market risk based on 8% of risk-weighted assets for each applicable exposure class. FHL's Pillar 1 capital requirements are formally reported to the FCA on a quarterly basis.

As the FHL Group is classed as a limited licence UK consolidation group under IFPRU 8, there is no Pillar 1 operational risk capital requirement.

6.2 Calculation of capital requirements - Pillar 2

Under Pillar 2 an internal capital assessment is undertaken to analyse the key risks that could threaten FHL's ability to meet its objectives and obligations. The assessment determines the capital required to withstand severe annual losses at a 99.5% confidence level. FHL performs the assessment annually or more frequently if changes to the business warrant it. It uses scenario modelling and stress testing to assess all risks faced by the business, taking into account any mitigation that is in place, or could realistically be affected.

6.3 FHL capital requirement

Capital is held to ensure that FHL maintains a suitable margin in excess of the higher capital requirement of the sum of credit and market risk requirements or the Fixed Overhead Requirement (FOR).

As at 30 June 2020 the capital resources requirement of the FHL Group under Pillar 1 was the FOR.

6.4 Credit risk

The credit risk assessment includes balance sheet and off-balance sheet items that are required to be assessed as credit risk exposures under Pillar 1. The credit risk requirement at 30 June 2020 is £47m (2019: £49m).

FIL uses a dedicated team of credit risk specialists that undertakes in-depth ongoing reviews of external ratings and other market information of all FIL approved bank counterparties, allowing proactive measures to be taken by FHL to manage exposures, including but not limited to, counterparty limit reductions or suspensions on a timely basis where necessary.

The FHL Group does not apply any credit risk mitigation techniques as defined in IFPRU 4.

'Past due' assets & provisions

Financial assets are considered to be past due when payment has not been made by the contract due date. An asset is considered as impaired when the carrying value of the asset is greater than the recoverable amount through sale or use. FHL reviews its financial assets on a regular basis for indicators of impairment.

As at 30 June 2020, FHL had no material assets past-due greater than 30 or 60 days.

6.5 Market risk

In terms of market risk, the FHL Group is directly exposed to:

Foreign exchange rate risk on the holding of currency cash balances and intercompany balances that are not denominated in GBP. At 30 June 2020, approx. 2% of the Group's net assets were non-GBP.

Limited market risk positions are taken in relation to positions in funds. These are only taken to enable the efficient operation of day-to-day fund dealing activities and are actively monitored within defined limits.

Market risk exists indirectly as components of revenue within the FHL Group are driven by values of assets under management (AUM) and assets under administration (AUA) and hence by the prices of securities. This risk is managed through regular monitoring of the AUM/AUA and management of the expense base. The overall impact on revenues and profit is considered as part of the annual scenario stress testing.

The market risk requirement has not been disclosed as the amount of the risk is considered immaterial as defined in section 1.7.

6.6 Operational risk

The FHL Group actively manages operational risk and employs a number of mitigation methods, principally the implementation of systems and controls. Where services are provided by third parties, the FHL Group performs due diligence processes and monitors and manages supplier performance.

Under Pillar 2, operational risk has been assessed using scenarios to make forward-looking assessments to evaluate the potential impact of extreme events, from which capital values are determined. The most material scenarios include:

- Information security incident /cybercrime
- Technology failure
- Investment transaction error
- Investment compliance breach (Duties to Customers risk)

7. Remuneration Policy and Practices

7.1 Background

As described in section 1.2, FIL Ltd is a private company which is owned by management and the founding family. Key employees are, from time to time, offered the opportunity to purchase FIL common shares out of their own post-tax monies, which helps to ensure strong alignment between shareholders and management and also inculcates a suitably long-term time horizon. Such shareholdings are generally retained throughout the individual's employment at FIL and are relatively illiquid.

7.2 Regulatory context

In terms of primary legislation, FHL's remuneration policies and practices are governed by CRD IV Articles 75 and 92-95; whilst FHL's remuneration disclosure is governed by CRR, Part Eight (Disclosure by Institutions), Title II (Technical Criteria on Transparency and Disclosure), Article 450 (Remuneration).

Primary legislation is supplemented inter alia by:

- Committee of European Banking Supervisors (CEBS) Guidelines on Remuneration Policies and Practices.
- FCA Handbook, Senior Management Arrangements, Systems and Controls (SYSC), Chapters 19A (IFPRU Remuneration Code) and 19C (BIPRU Remuneration Code).
- FCA General Guidance on Proportionality: the IFPRU Remuneration Code (SYSC 19A).
- Article 450(2) which requires firms to comply with CRR's remuneration disclosure rules in a manner that is proportionate to their size, internal organisation and the nature, scope and complexity of their activities ("the Proportionality Principle").
- The FCA's General Guidance on Proportionality: The remuneration code (SYSC19A) clarifies that, as an IFPRU limited licence group, which has no IFPRU 730K firms within its corporate group, FHL falls within Proportionality Level 3 and is able to avail itself fully of CRR's Proportionality Principle.

7.3 Decision-making process

The remuneration policy of FHL is set at FIL Group level, in keeping with all FIL Group policies and practices. Subsidiary company Boards, including FHL, have no formal responsibility for setting local remuneration policy, except as prescribed by local legal requirements.

7.4 Remuneration committee and oversight

FIL has established a remuneration committee. The committee has responsibility for taking a group-wide perspective on the principles and parameters of remuneration, and for oversight of the remuneration for specified senior executives.

The remuneration policy and compensation for individuals is set with an appropriate level of challenge and independence for a privately-owned asset management company.

Periodically FIL receives independent advice on technical executive remuneration issues. This advice is provided by PwC and Willis Towers Watson LLP, as well as from other advisers on an ad hoc basis where they are better placed to give advice on specific issues.

The FIL Board and senior management take full account of FIL's strategic objectives in setting the remuneration policy and the FIL Board is mindful of its duties to shareholders and other stakeholders. In making decisions on remuneration, senior management seek to preserve shareholder value by ensuring the successful recruitment, retention and motivation of employees.

No individual is involved in decisions relating to his or her own remuneration.

7.5 Pay and performance

FHL remuneration is made up of fixed pay i.e. salary and benefits and performance-related pay which are designed to reflect performance against a range of quantitative and qualitative targets.

The remuneration package is structured in a way that the fixed element is sufficiently large to enable the company to operate a fully flexible and discretionary bonus policy.

FHL currently sets the variable component in a manner which takes into account individual performance, performance of the individual's business unit and the overall results of FHL and FIL as a whole.

Staff performance is formally evaluated annually. The evaluations also consider the staff member's contribution in promoting sound and effective risk management where appropriate.

7.6 Aggregate quantitative information on remuneration

FHL has undertaken CRD's 'quantitative' as well as 'qualitative' test of material risk-taking in drawing up a Remuneration Code Staff list for FHL.

FHL's Code Staff is split between senior management and other members of staff whose actions could have a material impact on the risk profile of the firm.

FHL Code Staff employees have been identified as employees drawn from categories of staff including:

- Senior management and risk takers
- Staff engaged in control functions
- Employees receiving total remuneration that takes them into the same remuneration bracket as the lowest paid senior manager or risk taker and whose professional activities are also deemed to have a material impact on the risk profile of the regulated business, as defined by CRR Regulatory Technical Standards.

All of FHL's Code Staff who are senior employees have invested their own money in FIL shares, which they still hold.

FHL's aggregate remuneration awards to Senior Management and all other Code Staff during the 2020 fiscal year are as follows:

01/07/2019-30/06/2020	Senior Mgmt. £m	Other Code Staff £m	Total £m
Total Remuneration	9.92	37.29	47.21

This disclosure is on a financial year basis. Annual bonus awards and phantom share awards (deferred compensation) are generally determined in December of each year.

8. Appendices

8.1 Appendix 1 - Balance Sheet Reconciliation

Balance Sheet Reconciliation as at 30 June 2020 for FIL Holdings (UK) Limited

In order to meet the requirements for disclosure of a full reconciliation of own funds items to audited financial statements, as described in point (a) of Article 437(1) of Regulation (EU) No 575/2013, the table below shows an extract of the FIL Holdings (UK) Limited Group balance sheet and all items that are components of or are adjusted for in own funds. The reference column links to the template in Appendix 2.

Balance sheet reconciliation as at 30 June 2020	FHL Group Balance Sheet in the Audited Financial Statements	FHL Group Own Funds Items	Cross-reference to Appendix 2
Fixed Assets			
Intangible assets	33.436	33,436	a
Tangible fixed assets	81,559		
Investments	2,618		
Current assets			
Stocks	2,460		
Debtors	410,390		
Investments	427,230		
Cash at bank and in hand	38,397		
Creditors: amounts falling due within one year	**(421,897)**		
Creditors: amounts falling due after more than one year	**(34,245)**		
Provision for liabilities	**(8,384)**		
Pensions and similar obligations	**(15,252)**		
Net assets	**516,312**		
Capital and reserves			
Called up share capital	20,151	20,151	b
Share premium account	36,075	36,075	c
Merger reserve	44,075	44,075	d
Capital contribution	98,000	98,000	e
Profit and loss account	316,001	316,001	F
Total shareholders' funds	**514,302**		
Minority interests	2,010		
Capital employed	**516,312**		

8.2 Appendix 2 - Own Funds Disclosure Template

Own Funds Disclosure template as at 30 June 2020 for FIL Holdings (UK) Limited

In order to meet the requirements for disclosure of the specific items on own funds described in points (d) and (e) of Article 437 (1) of Regulation (EU) No 575/2013, institutions are required to disclose general own funds. FIL Holdings (UK) Limited's disclosure of own funds on a consolidated basis is outlined below:

		Amount at disclosure date £'000	Regulation (EU) No 575/2013 Article Reference	Cross-reference to Appendix 1
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	56,226	26 (1), 27, 28, 29	
	Of which: Ordinary shares	56,226	EBA list 26 (3)	b + c
	Of which: Instrument type 2	-	EBA list 26 (3)	
	Of which: Instrument type 3	-	EBA list 26 (3)	
2	Retained earnings	316,001	26 (1) (c)	f
3	Accumulated other comprehensive income (and other reserves)	142,075	26 (1)	d + e
3a	Funds for general banking risk	-	26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)	
5	Minority Interests (amount allowed in consolidated CET1)	-	84	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**514,302**		
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(33,436)	36 (1) (b), 37	a
9	Empty Set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38	
11	Fair value reserves related to gains or losses on cash flow hedges	-	33(1) (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159	
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)	

14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33(1) (b)	
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79	
20	Empty Set in the EU			
20 a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)	
20 b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91	
20 c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	
20 d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)	
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)	

24	Empty Set in the EU			
25	of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a)	
25 a	Losses for the current financial year (negative amount)	-	36 (1) (a)	
25 b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (l)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(33,436)**		
29	**Common Equity Tier 1 (CET1) capital**	**480,866**		
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	51, 52	
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86	
35	of which: instruments issued by subsidiaries subject to phase out	-	486 (3)	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**		
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79	
40	Direct, indirect and synthetic holdings	-	56 (d), 59, 79	

	by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
41	Empty Set in the EU			
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**		
44	**Additional Tier 1 (AT1) capital**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**480,866**		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	-	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88	
49	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)	
50	Credit risk adjustments	-	62 (c) & (d)	
51	**Tier 2 (T2) capital before regulatory adjustments**	**-**		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79	
55	Direct and indirect holdings by the	-	66 (d), 69, 79	

	institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
56	Empty Set in the EU			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**		
58	**Tier 2 (T2) capital**	**-**		
59	**Total capital (TC = T1 + T2)**	**480,866**		
60	**Total risk weighted assets**	**2,196,789**		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	21.89%	92 (2) (a)	
62	Tier 1 (as a percentage of risk exposure amount)	21.89%	92 (2) (b)	
63	Total capital (as a percentage of risk exposure amount)	21.89%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	N/A	CRD 128, 129, 130, 131, 133	
65	of which: capital conservation buffer requirement	-		
66	of which: countercyclical buffer requirement	-		
67	of which: systemic risk buffer requirement	-		
67 a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	N/A	CRD 128	
69	[non relevant in EU regulation]	-		
70	[non relevant in EU regulation]	-		
71	[non relevant in EU regulation]	-		
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70	
73	Direct and indirect holdings by the	1,877	36 (1) (i), 45, 48	

	institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	**19,808**	36 (1) (c), 38, 48	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements		484 (3), 486 (2) & (5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82	Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) & (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84	Current cap on T2 instruments subject to phase out arrangements		484 (5), 486 (4) & (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

8.3 Appendix 3 - Capital Instruments' Main Features Template

Capital Instruments' Main Features template as at 30 June 2020 for FIL Holdings (UK) Limited

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued by institutions, as described in point (b) of Article 437(1) of Regulation (EU) No 575/2013, FIL Holdings (UK) Limited discloses the capital instruments main features as outlined below:

Capital instruments' main features template		Ordinary shares
1	Issuer	FIL Holdings (UK) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private Placement
3	Governing law(s) of the instrument	English Law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£56.2m comprising nominal value and share premium
9	Nominal amount of instrument	£1
9a	Issue price	£2.79
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	£1 issued 30 October 2008 £56.2m issued 21 November 2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A

31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Represents the most subordinate claim in liquidation of the institution
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

8.4 Appendix 4 - Disclosure of asset encumbrance

Disclosure of asset encumbrance as at 30 June 2020 for FIL Holdings (UK) Limited

Template A - Encumbered and unencumbered assets

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	-	N/A			915,665	N/A		
030	Equity instruments	-	N/A			5,112	N/A		
040	Debt securities	-	N/A	-	N/A	-	N/A	-	N/A
050	of which: covered bonds	-	N/A	-	N/A	-	N/A	-	N/A
060	of which: asset-backed securities	-	N/A	-	N/A	-	N/A	-	N/A
070	of which: issued by general governments	-	N/A	-	N/A	-	N/A	-	N/A
080	of which: issued by financial corporations	-	N/A	-	N/A	-	N/A	-	N/A
090	of which: issued by non-financial corporations	-	N/A	-	N/A	-	N/A	-	N/A
120	Other assets	-	N/A			901,023	N/A		
121	of which: …	-	N/A			-	N/A		

Template B - Collateral received

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
		£'000	of which notionally eligible EHQLA and HQLA £'000	£'000	of which EHQLA and HQLA £'000
		010	030	040	060
130	**Collateral received by the reporting institution**	-	-	-	-
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: asset-backed securities	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
231	of which: …	-	-	-	-
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	-	-	-	-
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			-	-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	-	-		

Template C - Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent £'000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £'000
		010	030
010	**Carrying amount of selected financial liabilities**	**-**	**-**
011	of which: …	-	-

Template D - Accompanying narrative information

The above disclosure represents the computed median values of the four quarters between 30 June 2019 and 30 June 2020, in accordance with Annex XVII to Implementing Regulation (EU) No 680/2014.

Assets and collateral are considered encumbered when they have been pledged or are subject to any form of arrangement to secure, collateralise or credit enhance a transaction from which they cannot be freely withdrawn.

The FHL Group has no encumbered assets or corresponding collateral to report and no sources of encumbrance are expected in the future. Asset encumbrance is not part of the FHL Group's funding strategy.

Being an investment firm, the specific disclosure on asset quality does not apply to the FHL Group as it is not in scope of the application of Delegated Regulation (EU) 2015/61.

Of the total unencumbered assets reported in column 060 in template A, the FHL Group would deem approximately 74% of the assets as unavailable for encumbrance in the normal course of its business.