



Pillar 3 Disclosures

as at May 2012

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1. Introduction

Henderson Group plc (the “Group” or “Henderson”) is subject to prudential oversight by the various regulators of the countries in which it operates. Its primary regulator is the Financial Services Authority (FSA) in the UK.

The European Capital Requirements Directive (“CRD” or “the Directive”) introduced a revised capital adequacy framework implementing Basel II in the European Union. Basel II is an international initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital. The FSA is responsible for the implementation and enforcement of the Directive. The framework consists of three ‘pillars’:

- Pillar 1 sets minimum capital requirements that firms must meet for credit, market and operational risk. These comprise: base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirement.
- Pillar 2 requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements.
- Pillar 3 complements Pillars 1 and 2 and improves market discipline by requiring firms to disclose information on their capital resources and requirements, risk exposures and their risk management framework.

1.1 Basis of Disclosures

The Pillar 3 disclosures set out in this document are made in accordance with the requirements of Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Specifically, it covers Henderson’s risk management objectives and policies; the processes for managing material risks; the structure and organisation of the risk management functions within the Group; the scope and nature of risk reporting and measurement systems; and the policies for mitigating risk.

At 31 December 2011 the Group had 12 subsidiaries registered with and regulated by the FSA as follows:

Limited Licence Investment Firms (“LLIFs”)¹;

- Henderson Global Investors Limited (“HGIL”);
- Henderson Fund Management Limited (“HFML”);
- Henderson Equity Partners Limited (“HEPL”);
- Henderson Alternative Investment Advisor Limited (“HAIAL”);
- Henderson Investment Management Limited (“HIML”);
- Gartmore Investment Limited (“GIL”);
- New Star Asset Management Limited (“NSAML”); and
- New Star Institutional Managers Midco Limited (“NSIMML”).

Regulated firms not subject to CRD²,

- Henderson Investment Funds Limited (“HIFL”);
- Gartmore Fund Managers Limited (“GFML”);
- Gartmore Global Partners (“GGP”);
- New Star Investment Funds Limited (“NSIFL”);

¹ On 1 July 2011 New Star Institutional Managers Limited was sold by the Group to Connor Clark & Lunn UK Limited.

² Gartmore Global Partners was de-registered from the FSA on 22 February 2012.

The CRD and Pillar 3 disclosures are applicable to the Group's LLIFs. HIFL, NSIFL and GFML are UCITS firms, which together with GGP (a US partnership), are not subject to the Directive.

The Group has been granted a waiver from the consolidated supervision capital adequacy requirements. The waiver is effective until 4 April 2016. With regard to the risk management and control framework, this information is disclosed at the Group level as Henderson operates a Group-wide risk management framework.

1.2 Frequency of Disclosures

These disclosures are required to be made at least annually and, if appropriate, some disclosures will be made more frequently. Henderson Group plc has a reporting date of 31 December and disclosures will be made as at 31 December as soon as is practicable after publication of its Annual Report and Accounts.

1.3 Verification, Media and Location

The Henderson disclosures explain the basis of preparation of certain capital requirements and provide information about the management of specific risks. They do not constitute, in any form, audited financial statements and have been produced solely for the purposes of Pillar 3. These disclosures are published on the Group's website (www.henderson.com) within the Corporate Governance section on internal controls.

2. Henderson's Risk and Control Framework

2.1 Risk Management

The Board considers risk assessment and the existence of effective controls to be fundamental to achieving its corporate objectives within an acceptable risk and reward profile. During 2011, and up to the date of this report, there has been in place an ongoing process for identifying, evaluating and managing significant risks within the Group's control which accords with the guidance set out in the "Turnbull Report – Internal Control: Revised Guidance for Directors on the Combined Code – October 2005". No significant failings or weaknesses were identified during this process. A summary of the Group's risk policy is on the Group's website and the key risks and their mitigation are outlined in the Business Review section of the Group's Annual Report and Accounts.

The responsibility for managing risk lies with the Group's Executive Committee ("ExCo"). There are also a number of management committees chaired by, and consisting of, senior managers that have responsibility for specific areas of risk. These provide a forum for managing and resolving significant risk and regulatory issues. Day-to-day responsibility for management of risk is delegated to line management who work closely with the risk management team to maintain an effective system of controls.

The Group's framework utilises a 'three lines of defence' approach to managing risk: the first line is represented by business management managing risk and having in place effective controls; the second line comprises an independent Risk function monitoring the operation of those controls and ensuring risks are not overlooked and by the Compliance team, which monitors regulatory risks. The third line is provided by Internal Audit, which operates and reports independently of management to the Audit Committee and is responsible for assessing the effectiveness of controls and, where necessary, making recommendations for improvements and monitoring management action plans to implement such improvements.

Quarterly risk reports are provided to the Board Risk Committee which include material business risks such as credit, market and operational risks and the Chief Risk Officer ("CRO") provides regular reports to the Board Risk Committee on these topics. The Risk function also maintains an

incident management process and reports regularly to the ExCo. The Board considers the scope of the activities of the Board Risk Committee and the reporting framework gives it sufficient information upon which to assess the effectiveness of the Group's system of internal controls and to assess the actual and potential risks facing the Group.

2.2 Oversight of Internal Controls

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The effectiveness of the Group's system of internal controls is reviewed at least annually by the Board in order to safeguard the Group's assets as well as clients' and shareholders' interests. For 2011, this review covered all material controls including financial, operational and compliance controls and risk management systems. As part of its review the Board received assurances from the Chief Executive, the Chief Financial Officer and the other Executive Directors that the statement included on page 49 of the 2011 Annual Report is founded on a sound system of risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks. In addition the ExCo reported positively to the Board on the effectiveness of the Group's system of internal controls and the mitigation of any material business risks. The Board has delegated certain responsibilities to the Audit and Board Risk committees. Terms of References for these committees are available on the Group's website.

The Group's system of internal controls requires line managers to confirm regularly that controls in their areas have operated effectively. These controls, and the risks which they are designed to mitigate, are maintained within the Group's operational risk database, which in turn reflects the risk profiles of each part of the Group's business.

Additional assurance is provided by the Internal Audit function.

2.3 Risk Appetite Statement

It is both necessary and desirable for the business to accept and assume a level of risk in pursuit of achieving the corporate strategy. However, it is also necessary to ensure that the amount of risk taken is within acceptable boundaries that are commensurate with the financial strength of the business. The risk appetite statement (RAS) covers the key risks that the business is expected to encounter. The statement is a mixture of qualitative guidance and quantifiable limits depending on what is appropriate in relation to the risk concerned.

There are seven main themes regarded as essential to the successful delivery of Henderson's corporate strategy and goals and the RAS addresses the key risks within each of these themes. The themes are:

Client and fund investor focus: We are committed to providing our clients and fund investors with a standard of service that meets or exceeds their expectations. We set our outsourced service providers targets that ensure we are supported in achieving this objective.

Trust: Henderson wants to be seen as a trusted, reliable and highly respected investment manager. This is fundamental to the way we seek to do business.

Group growth and performance: The delivery of sustainable performance over the long term and growth in the AUM and profit are regarded as an essential element of our corporate strategy.

Financial stability: It is essential for Henderson to maintain its financial strength since this is fundamental in supporting its business plans, maintaining the confidence of its stakeholders,

providing shareholders with an acceptable return and sustaining the corporate brand. We achieve this by sound management of our key financial risks.

People: The employment of talented, committed people is critical to our success. Motivating and appropriately rewarding our people is a key objective.

Operational excellence: We need our people, processes and systems to work efficiently and effectively together to ensure that clients receive high standards of service. The ability to provide a continuous level of service, and to be able to do so when unforeseen events occur, is part of this quest for excellence.

Regulatory and Legal compliance: Henderson operates in a number of different countries and is therefore under the jurisdiction of several different regulators. Its aim at all times is to operate within the laws and regulatory rules of the countries concerned and to be proactive, cordial and responsive with regulators.

3. Risk Exposure Overview

The material risks to which Henderson is exposed are set out below.

3.1 Operational Risk

Operational risk is the risk that the Group will sustain losses through inadequate or failed internal processes, people, systems and external events. In addition, it could also suffer indirect losses through damage to its reputation arising from operational failures.

The Group operates a system of controls which is designed to ensure operational risks are mitigated to the required level. The operation and effectiveness of the controls is regularly assessed and confirmed through the work of the Group's assurance functions: the Risk function, Compliance and Internal Audit.

As part of regularly updating the Group's Internal Capital Adequacy Assessment Process ("ICAAP"), the Risk function facilitates a series of business wide workshops to harness expert opinion on the key operational risks and to provide an assessment of the future frequency and potential impact of each risk. The members of senior management are selected by the Risk function on the basis of their expertise in their relevant business area, knowledge of business process and controls and the specific risk categories under review.

The workshops consider a combination of internal and external historical data to determine the severity and frequency of each key risk on both an average and worst case basis. The workshops also consider the internal control environment around each risk and any mitigating actions that would be brought to bear in the event of the risk occurring.

The outputs from the workshops are then statistically modelled to produce a 1 in 200 year capital impact estimate for the Group, which is an estimate of the capital required to cover direct losses to Henderson and any costs of making good clients as a result of an operational incident. The model aggregates the risks and calculates an operational value at risk figure for each key risk category. The model uses 'fat-tailed' distributions to adequately allow for extreme events and also incorporates a degree of correlation between risks. The model was developed by an external actuarial firm in 2010 and is periodically revalidated to ensure that the model remains appropriate and operates as intended.

Once quantified, each operational risk capital impact is allocated across the various regulated entities in the Group based upon appropriate drivers for each risk.

3.2 Foreign Currency Risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in exchange rates, as a result of its exposure to non-GBP income and expenses and assets and liabilities of its overseas subsidiaries; as well as certain other assets and liabilities denominated in a currency other than GBP.

The Group mitigates this risk through the effect of natural hedges i.e. holding financial assets and liabilities of equal value in the same currency; by limiting the net exposure to an individual currency; and by entering into hedging instruments such as foreign exchange contracts, which are primarily used to hedge available-for-sale financial assets. A Hedge Committee oversees this risk and reports to the Board quarterly.

3.3 Credit Risk

Credit risk is the risk of a counterparty to the Group either defaulting on Group funds deposited with it or the non-receipt of a trade debt.

The Group has an established credit risk policy to ensure its counterparties meet strict minimum rating requirements consistent with the Group's risk appetite; and the Credit Risk Committee ("CRC") meets regularly to approve, review and set limits for all new and existing counterparties. The CRC monitors exposures to counterparties against the limits it sets and reports quarterly to the Board Risk Committee on its decisions, counterparty exposures, any credit concerns and actions taken to mitigate credit risks. The CRC includes members from Risk, Compliance, Credit Analysis, Dealing, Legal and Derivative Operations functions and meets monthly.

In addition, the Group has many clients that have fees deducted directly from their assets or alternatively are billed regularly with strict payment terms which significantly reduces credit risk on receivables.

3.4 Market Risk

Market risk is the risk that market conditions lead to a decline in the value of Group available-for-sale financial assets. Further, in the event of market conditions adversely affecting clients' assets under management (AUM), fees earned from those AUM would reduce.

The Group mitigates the market risk on the Group's available-for-sale assets by investing in a diversified range of assets; and mitigates a fall in the value of clients' AUM by having a broad range of clients by distribution channel, product, asset class and region. In addition, the Group actively seeks fee bases which are not solely related to market value of AUM. It also makes a significant amount of its expense base variable and therefore capable of reduction, without having a significant impact on the Group's operating capability.

3.5 Liquidity Risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due.

The Group manages its liquidity on a daily basis within the Finance function, which ensures that the Group has sufficient cash and/or highly liquid assets available to meet its liabilities. The Group ensures that it has access to funds to cover all forecast commitments for at least the following twelve months.

Henderson does not bear any liquidity risk associated with its clients' funds and has no obligation to provide short term liquidity to its clients.

3.6 Key Personnel Risk

Key Personnel risk is the risk of losing either a member of the ExCo or one of the Group's key investment or distribution professionals. This could have an adverse effect on both the growth of the business and/or the retention of existing business.

The Group operates competitive remuneration structures designed to recognise and reward performance. It also has succession planning to ensure that there is cover for key roles should they become vacant. In addition, staff surveys identify any issues which could adversely impact staff retention and comprehensive training is offered ensuring skills and knowledge reside in more than one individual.

3.7 Investment Performance Risk

Investment Performance risk is the risk that funds fail to achieve performance hurdles or benchmarks. This might cause clients to redeem their investments, which in turn would result in a reduction in revenue earned by the Group. Poor fund performance will also result in lower performance fees.

The Group mitigates this risk through a robust investment process which includes detailed research. It also has a clearly articulated investment philosophy and analyses its funds by comparing their performance against appropriate benchmarks. In addition, the Group has a broad range of funds to reduce the probability of all funds underperforming at the same time.

3.8 Regulatory/Legal Risk

Regulatory/Legal risk is the risk that a change in laws and regulations will materially affect the Group's business or markets in which it operates. The Group's business is subject to many regulations in different jurisdictions and currently the pace of change is significant and may affect the business either directly or indirectly by reducing investors' appetite for products, increasing capital requirements or in some other way.

Regulatory developments are continuously monitored and where there is likely to be an impact, working groups are formed to implement the changes. The Compliance team in particular monitors ongoing regulatory obligations and engages in dialogue with our main regulator.

4. Capital Adequacy

4.1 Capital Resources

At 31 December 2011 and throughout the year, all of the LLIFs in the Group complied with their individual capital requirements as set out by the FSA. The table below summarises the total capital for each of the LLIFs as at 31 December 2011.

Capital resources	HGIL £'000	HAIAL £'000	HEPL £'000	HFML £'000	HIML £'000	NSAML £'000	NSIMML £'000	GIL £'000
Core tier 1								
Share capital	2,600	250	22,000	900	400	2,500	150	30,000
Share premium	9,150	-	-	-	16,150	-	-	-
Profit & loss and other reserves	52,720	10,403	(13,512)	22,861	(10,730)	5,099	-	24,189
Total core tier 1	64,470	10,653	8,488	23,761	5,820	7,599	150	54,189
Deductions from tier 1:								
Material holdings in financial institutions	-	-	-	-	-	-	-	(5,061)
Tier 1 capital after deductions	-	-	-	-	-	-	-	(5,061)
Tier 2 and 3 capital	3,250	-	-	-	-	3,200	-	-
Deductions from total capital (illiquid assets)	(14,460)	-	(422)	(4,112)	-	-	-	-
Total capital resources after deductions	53,260	10,653	8,066	19,649	5,820	10,799	150	49,128

4.2 Capital Requirements

The Pillar 1 variable capital requirement for each LLIF is calculated as the higher of:

- the base capital resources requirement;
- the sum of the credit and market risk capital requirements; and
- the fixed overhead requirement.

A summary of the capital requirements for each entity is shown in the table below:

Capital requirement	HGIL £'000	HAIAL £'000	HEPL £'000	HFML £'000	HIML £'000	NSAML £'000	NSIMML £'000	GIL £'000
(a) Base Capital requirement	104	104	104	104	42	42	42	104
(b) Credit and counterparty risk (see separate table)	10,165	692	375	2,357	262	230	12	1,301
(c) Market risk	5,490	1,280	8	3,461	67	46	-	9
(d) Sum of (b) and (c)	15,655	1,973	383	5,818	329	276	12	1,310
(e) Fixed overhead requirement	17,482	770	707	84	83	32	1	11,914
Variable capital requirement - higher of (a), (d) and (e)	17,482	1,973	707	5,818	329	276	42	11,914

The Pillar 1 credit risk capital requirement is calculated in accordance with the standardised approach. The components of the credit risk capital requirement for each entity are shown in the table below. The market risk for firms relates to foreign exchange.

HFML also has a counterparty risk component to its capital requirement which arises from foreign exchange dealing as principal to facilitate the smooth conduct of its client business. The Risk function continuously monitors exposures of the foreign exchange dealing desk to counterparties against the limits assigned and set by the CRC. Whilst exposures from foreign exchange trading include financial institutions and clients, client exposures can be monitored alongside the client

portfolio managed under the relevant investment management agreement. Exposures are measured under the mark to market methodology with reference to foreign currency contracts. Financial institution exposures are weighted using the appropriate weighting for that category and client exposures are categorised as other institutions and weighted accordingly.

Credit and counter party risk	HGIL £'000	HAIAL £'000	HEPL £'000	HFML £'000	HIML £'000	NSAML £'000	NSIMML £'000	GIL £'000
Credit risk								
Financial Institutions	5,155	414	322	350	194	215	-	1,076
Other	5,010	278	53	157	68	15	12	225
Total credit risk	10,165	692	375	507	262	230	12	1,301
Counterparty risk	-	-	-	1,850	-	-	-	-
Total credit risk and counter party risk	10,165	692	375	2,357	262	230	12	1,301

4.3 ICAAP

The Group's Individual Capital Adequacy Assessment Process (ICAAP) methodology is designed to capture the key risks faced by the business under Pillar 2. Taking the FSA's BIPRU Rules and Guidance as a starting point, the key risk types defined therein have been assessed for relevance and appropriateness to the Henderson business model. Henderson's policy is to review its ICAAP methodology at least semi-annually.

Reports are prepared on a semi-annual basis for ExCo and the Board, giving an assessment of the amounts, types and distribution of capital resources that Henderson considers appropriate for the nature and level of risks to which it is or might be exposed.

Section 3.1 above details the approach to operational risk with the use of risk workshops and statistical modelling to generate capital required to be held under this category. Each other risk exposure that would cause potential future capital losses is considered and measured accordingly using a mixture of relevant internal and external data.

For those risks that would cause either reputational damage or reduce future revenue, rather than causing an immediate capital loss to the Group, assessment has been made through downside stress and scenario testing of the impact on Group financial forecasts.

The ICAAP also considers the Group's long term capital outlook, along with a downside scenario, a process which is incorporated into the Group's annual budgeting process and reviewed by ExCo and the Board. In addition, it considers a wind down analysis which looks at whether the Group would be required to hold additional capital over the period that it would take to wind up the Group.

5. Remuneration Code

The FSA implemented its new Code on Remuneration (Code) with effect from 1 January 2011.

Under the Code, the Group's Remuneration Committee must report annually on the remuneration policy and practice for employees termed Code Staff. Code Staff are "employees who perform a significant influence function, senior management and risk takers whose professional activities could have a material impact on a firm's risk profile".

Code Staff are defined with reference to managerial responsibility to influence the firm's overall risk profile. At the discretion of the Remuneration Committee, other employees may be included as Code Staff if they consider that their role has a material impact on the firm's risk profile. An annual review of the firm's risk profile is conducted in order to allow the Remuneration Committee to determine the Code Staff population and a record is kept by HR. The Committee also takes advice from the Chief Risk Officer and Chairman of the Board Risk Committee.

Henderson Group's Code Staff are defined as the Executive Directors, other members of the Executive Committee and other employees performing FSA Significant Influence Functions (SIFs).

The aggregate annual remuneration of the Code Staff in respect of 2011 was £20.2m. This comprised fixed pay, variable pay, non-contributory pension and benefits in kind and share plan related remuneration.

Further details of Henderson's annual remuneration process and policy, together with the composition and remit of the Group's Remuneration Committee is provided in the Directors' report on remuneration on pages 39 to 48 of the 2011 Annual Report, which is available within the Investor Relations section of the Group's website (www.henderson.com).