



Capital Requirements Directive: Pillar 3 Disclosure

The F&C Group

Purpose

The Capital Requirements Directive (“CRD”) introduced a revised capital adequacy framework across Europe seeking to reduce the probability of consumer loss or market disruption as a result of prudential failure. It does so by seeking to ensure that the financial resources held by firms are commensurate with the risks associated with the business profile and the control environment within them.

Background

The framework under the CRD consists of three 'pillars' of regulatory capital. Pillar 1 sets out the minimum capital requirements firms are required to meet for credit, market and operational risk. Under Pillar 2, firms and their supervisors are required to form an opinion on whether they should hold additional capital against risks not adequately covered in Pillar 1 and must take action accordingly. The aim of Pillar 3 is to then improve market discipline by requiring firms to publish certain details of their capital, risk exposures and management practices, and to have a formal disclosure policy in place which should assess the appropriateness, verification and frequency of the disclosure. This document is F&C's response to the Pillar 3 disclosure requirement and, as such, constitutes the F&C Group Pillar 3 disclosure.

F&C's Pillar 3 disclosure covers the applicable requirements as per the rules described in BIPRU 11 of the FSA Handbook.

Scope and Application Of Disclosure Requirements

The disclosures in this document relate to the F&C Group (“F&C” or “the Group”), the parent of which, F&C Asset Management plc (“FCAM”), is an unregulated holding company, listed on the London Stock Exchange.

The Group obtained a waiver from the UK's financial regulator¹ from meeting any minimum capital requirements under the consolidated supervision rules and consequently under the FSA rules, specifically BIPRU 11.2.1 R (3), disclosures must be made on an individual basis across all in-scope CRD firms. These firms are:

F&C Group Company	Abbreviation	Country of incorporation	Prudential Regulator
F&C Asset Managers Limited	F&CAM	England	FSA ¹
F&C Management Limited	FCM	England	FSA
ISIS Investment Manager plc	ISISIM	England	FSA
F&C Managers Limited	FCMGRS	England	FSA
F&C REIT Property Asset Mgmt. plc	FCRPAM	England	FSA
F&C Investment Business Limited	FCIB	Scotland	FSA
Thames River Capital LLP	TRC	England	FSA
Thames River Multi-Capital LLP	TRMC	England	FSA
F&C Ireland Limited	FCIRL	Ireland	CBI ²
F&C Netherlands B.V.	FCNL	Netherlands	DNB ³
F&C Portugal S.A.	FCPGL	Portugal	BoP ⁴

¹ Financial Services Authority

² The Central Bank of Ireland

³ De Nederlandsche Bank

⁴ Banco de Portugal

All firms detailed are fully consolidated into the Group for accounting purposes and prudential purposes. There are no known current or foreseen practical or legal impediments (other than those set out by law or in regulation) to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings and there are no subsidiary undertakings where actual capital resources are less than the required minimum, i.e. each regulated company within the Group currently holds a surplus of regulatory capital.

Risk Management Objectives and Policies

The Group is a diversified asset management group focused with two core client segments: institutional clients (pension schemes and insurance companies) and retail / wholesale clients (through both mutual funds and investment trusts). Around 80% of the assets are managed are for institutional clients. The Group manages investments from multiple investment centres including London, Edinburgh, Amsterdam, Lisbon and Dublin. Investment teams have clearly differentiated products and processes with no overlap. Each product managed by the group is rigorously monitored from a risk management perspective.

Our risks are typical to those of other investment managers and fall under the categories of: financial risk, operational risk and strategic risk. It is important to note that all risks are monitored and managed as part of our governance and risk management framework which is consistently applied across all firms within the Group. This uniformity arises as all Group firms are managed and operated to support the Group's objectives and strategies, and the FCAM Board and Executive Management provides oversight of all operations.

The procedures that the Directors have established are designed to provide effective control within the Group and accord with the UK Corporate Governance Code (formerly the Combined Code) issued by the Financial Reporting Council

("FRC"). The ongoing process of identifying, assessing and managing significant risks is regularly reviewed by the FCAM Board to ensure that it complies with FRC corporate governance standards.

Control Environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all areas of its business and all jurisdictions in which it operates. The Group has in place appropriate procedures for reporting and resolving matters that do not meet the required standards of business conduct.

The Group has an appropriate organisational structure for planning, executing, managing and monitoring business operations in order to achieve its objectives. This structure is designed to provide clear responsibilities and a control framework for key areas of the Group's business.

Operational responsibility for the control environment rests with the Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of Executive Management are, therefore, accountable for the operation of the systems of internal controls within the Group's business.

Monitoring and Corrective Action

The Group has a formal compliance function, which forms part of the Risk & Compliance department ("R&C"). R&C conducts regular monitoring of various business areas and control procedures in line with a plan agreed quarterly with the Group Audit and Compliance Committee ("ACC"), a sub-committee of the FCAM Board. Any issues of significance are brought to the attention of the ACC by R&C through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the ACC.

The ACC reviews the effectiveness of the operation of the control framework at least twice each year.

A formal annual internal control report is produced for F&C's clients providing assurance on both the design and the operating effectiveness of F&C's control procedures. The report follows the Audit & Assurance Faculty ("AAF") guidelines established by the ICAEW.

Approach to Operational and Strategic Risk

Operational risk is defined as the risk of loss resulting from unexpected changes in elements related to operations such as human resources, technology, processes and other events. Strategic risk is defined as the risk of loss resulting from unexpected changes in key elements of strategy formulation or execution.

The identification of major operational and strategic risks is carried out by the FCAM Board in conjunction with management, and procedures to manage these risks, where possible, are reviewed and agreed.

Quarterly reports are prepared by each of the business units, across all locations including the Group's overseas operations. The quarterly reports include issues of material risk. These reports are discussed in detail by Executive Management, which includes the Executive Directors of FCAM. All significant items are identified and reported to the Board on a regular basis.

R&C facilitates the identification and documentation of risk in the business and helps the business identify mitigating actions. In addition, any business incidents, including mandate breaches, are reported by the business to R&C where they are recorded and progress actively monitored until resolved.

Approach to Financial Risk

The Group's risk management objectives and policies applicable to this disclosure and with specific regard to counterparty credit risk, liquidity risk, market risk and pension obligation risk are summarised below.

- Counterparty credit risk is defined as risk associated with unexpected changes in the credit-worthiness of counterparties.
- Liquidity risk is defined as risk associated with unexpected changes in liquidity supply or demand relating to the selling of assets, access to liquid funds, the ability to meet contractual demands or default
- Market risk is defined as risk associated with unexpected changes in external markets, prices or rates related to general market movements or specific assets including, but not limited to, equity, fixed income, credit, real estate, commodities and other alternative assets as well as macro factors including changes in interest rates and currencies.
- Pension obligation risk is defined as risk to a firm caused by its contractual or other liabilities to or with respect to a pension scheme.

F&C adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group treasury operations are managed by the Finance function within parameters defined by the Board. The regulatory capital and treasury positions of the Group are reported to the Board on a regular basis.

The Group is exposed to a number of financial risks in the normal course of its business. The risk management policies adopted are designed to manage risk and recognise that treasury management operations are specifically not treated as a

profit centre. The key aspects of this policy and its implementation are detailed below:

- The Board Reserved List prohibits the establishment of borrowing facilities without the prior approval of the Board.
- Placing of funds on deposit is short term only (maximum term 90 days) – unless approved by Executive Management.
- Deposits may only be placed with counterparties approved by the F&C Credit & Counterparty Approval Committee, and the Board sets the appropriate limit of exposure to any one counterparty.
- Foreign currency exposure is managed to reduce the risk and impact of movements in exchange rates by the repatriation of surplus foreign currency to Sterling and the hedging of non-Sterling balances when exchange rates are considered by the Board to present an opportunity to fix the Sterling value of future Euro-denominated income streams at an acceptable level. Surplus currency balances are defined as being the level of cash which exceeds the regulatory, legal and working capital requirements of the relevant foreign operations.

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions including the capacity to fund anticipated restructuring activity.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial assets, but benefits from the certainty of fixed interest rates on its issued debt.

Remuneration

In order to implement the requirements of the CRD, the FSA introduced changes to the scope and application of its Remuneration Code (the Code) at the start of 2011. A key objective of the Code is to ensure remuneration policies promote effective risk management and in line with this, the FSA has issued guidance as to how firms apply the Code in a proportionate manner based on their risk profile. F&C is required to comply with the Code and considers itself a Tier Four entity in terms of the FSA's guidance on proportionate application. The following represents F&C's remuneration disclosure under Pillar 3 for the year ended 31 December 2011.

Decision-making process for remuneration policy - F&C has formed a Remuneration Committee (REMCom) which meets regularly to consider human resources matters relating to terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board of F&C, REMCom is responsible for the approval, review and implementation of F&C's Remuneration Policy and in doing so takes into account the pay and conditions across the F&C Group. This includes the terms of bonus plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior management including those employees deemed to have an impact on F&C's risk profile (Code Staff).

There were 5 meetings of REMCom during 2011. Following each meeting, REMCom reports to F&C's Board on its activities. The members of REMCom are independent non Executive Directors of the Board.

External Consultants - REMCom received independent advice on various remuneration issues from Kepler Associates, McLagan & Partners, Deloitte and PricewaterhouseCoopers.

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

Role of the relevant stakeholders - REMCom takes account of F&C's strategic objectives in setting remuneration policy and is mindful of its duties to shareholders and other stakeholders. The Terms of Reference of REMCom ensures that the long-term interests of shareholders, investors and other stakeholders are taken into account. REMCom seeks to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

Code Staff criteria - F&C recognises that Code Staff includes Directors and employees who are SiF's, senior management, risk takers, heads of control functions and any employee (in the same remuneration bracket) whose professional activities have a material impact on F&C's risk profile. (Code Staff are defined with reference to managerial responsibility to influence F&C's overall risk profile). REMCom will determine those Directors and employees whose role and responsibilities have a material impact on F&C's risk profile. Twenty Directors and employees have been identified as Code Staff whose roles include Directors, Group Management, risk and other senior managers and heads of control functions as deemed appropriate. A record of Code Staff is maintained by Human Resources and is reviewed at least annually by the REMCom.

The link between pay and performance for Code Staff - Remuneration is made up of fixed pay (i.e. salary and benefits) and variable performance-related pay. Performance related pay is designed to reflect success or failure against a range of targets. F&C is committed to awarding an appropriate mix of salary, cash bonus

and long-term awards as warranted by company and individual performance and market practice.

Aggregate remuneration cost for Code Staff by business area - The aggregate annual remuneration of the Code Staff in respect of 2011 was £9.7m. This is made up of fixed pay, variable pay, non-contributory pension/ and benefits in kind and share plan related remuneration. F&C Code Staff are defined as Senior Managers and F&C's business is defined as one business unit covering Asset Management.

Further details on remuneration are set out in the Report on Directors' Remuneration section of the 2011 Annual Report & Accounts

Capital Resources

The core tier 1 capital resources of each firm consist of share capital (or members capital for F&C Partners LLP, Thames River Capital LLP and Thames River Multi-Capital LLP), share premium and profit & loss account and other reserves. Share

capital relates to ordinary shares in each firm that are allotted, called up and fully paid. F&C Management Limited holds tier 2 capital of £10m relating to a subordinated loan with a fellow subsidiary undertaking.

Capital Resources 31 December 2011	F&CAM £'000	FCM £'000	ISISIM £'000	FCMGRS £'000	FCRPAM £'000	FCIB £'000	TRC £'000	TRMC £'000	FCIRL €000	FCNL €000	FCPGL €000
Core Tier 1:											
Share Capital	16,000	32,332	3,550	500	1,000	13,000	7,000	3,260	190	209	9,000
Share Premium	-	42,197	-	-	-	-	-	-	-	112,927	-
Profit & loss and other reserves ⁵	(1,863)	9,423	(239)	20,925	2,880	(1,196)	94	1,792	3,616	(94,229)	11,440
Total Core Tier 1 Capital	14,137	83,952	3,311	21,425	3,880	11,804	7,094	5,052	3,806	18,907	20,440
Deductions from Tier 1:											
Intangible Assets	-	-	-	-	-	833	-	-	-	-	-
Material holdings in financial inst.	-	50	-	-	-	-	-	-	-	-	-
Pension fund calculation	-	-	-	-	-	-	-	-	-	-	-
Tier 1 capital after deductions	14,137	83,902	3,311	21,425	3,880	10,971	7,094	5,052	3,806	18,907	20,440
Tier 2 and Tier 3 capital	-	10,000	-	-	-	-	-	-	-	-	15
Deductions from total capital	602	56,385	2,620	11,735	204	422	114	-	171	1,351	482
Total resources after deductions	13,535	37,517	691	9,690	3,676	10,549	6,980	5,052	3,635	17,556	19,973

⁵ Excludes 2011 profits/non-material losses

Capital Resource Requirements

All firms captured by the CRD are “limited licence” as specified by Article 20(2) of the CRD, and this dictates that each firm’s Pillar 1 capital requirement must follow the higher of: (a) the sum of the credit risk capital requirement and the market risk capital requirement; and (b) the fixed overheads requirement. No operational risk

requirement is therefore calculated or included under Pillar 1. The exception to this is F&C Netherlands B.V. where the capital resource requirement is the sum of the credit risk capital requirement and the market risk capital requirement, per De Nederlandsche Bank prudential regulations.

Capital Resource Requirements 31 December 2011	F&CAM £'000	FCM £'000	ISISIM £'000	FCMGRS £'000	FCRPAM £'000	FCIB £'000	TRC £'000	TRMC £'000	FCIRL €000	FCNL €000	FCPGL €000
Base Capital Requirement	104	104	104	42	104	104	42	104	125	50	50
Credit risk capital requirement	550	2,343	50	539	268	624	609	55	110	802	915
Market risk capital requirement	2	2,214	-	-	57	67	117	7	0	113	-
Fixed overheads requirement	6766	17,821	6	1,336	2079	2,213	2,968	373	1026	9,307	1,570
Total variable capital requirement	6,766	17,821	50	1,336	2,079	2,213	2,968	373	1,026	915	1,570

The Group calculates the Pillar 1 credit risk capital requirement in accordance with the standardised approach. Further disclosures relating to the credit risk capital component have in most cases been considered immaterial under BIPRU 11.3.5R as the capital requirement for most firms is the fixed overhead requirement. The following table shows the credit risk exposure class for firms where the capital resource requirement is not the fixed overhead requirement. The market risk for those firms relates to foreign exchange.

Credit risk exposure class	ISISIM £'000	FCNL €000
Institutions	2	715
Other items	48	87
Total credit risk capital requirement	50	802

Compliance With Rules In BIPRU and Pillar 2 Rule Requirements

The adequacy of capital to support current and future activities is monitored in the F&C Internal Capital Adequacy Assessment Process ("ICAAP"). The level of capital required has been assessed through reviewing a number of scenarios and comparing them with the base case scenario of our budgeted business plan. This approach identifies the timescale and extent of possible capital deficiencies should an adverse scenario arise. The additional level of capital required to cover the Group against such a scenario can then be assessed and / or the mitigating actions identified which are required to ensure a continued capital surplus.

The latest base case scenario has been prepared as at the end of 2010, with actual results to this date and forecasts for a three-year time span to the end of

2013. This time span is deemed appropriate as it shows both a short-term view of any adverse scenarios and also an impact over the medium-term during which actions would be taken if continued deterioration were to occur.

Verification, Frequency and Ongoing Review of the Disclosures

The disclosures detailed in this document are updated in conjunction with the F&C Group ICAAP, and generally on an annual basis, unless there is a significant event which would detrimentally impact the capital and risk position of the Group.

The disclosures detailed in the ICAAP are reviewed and formally adopted by the Group's Executive Management Committee and the Board of FCAM, and the Board of each requisite firm.

The Pillar 3 disclosure document is reviewed and approved by the F&C Group Chief Financial Officer and the F&C Group Chief Risk Officer.