J & E Davy (UK) Limited
MiFIDPRU 8 Disclosure (Unaudited)

Donegall House, 7 Donegall Square North, Belfast BT1 5GB

30 December 2022

1. J & E Davy (UK) Limited ("Davy UK")

1.1 Background

From 1 January 2022 the Financial Conduct Authority (FCA) has adopted a new harmonised prudential regime (Investment Firms Prudential Regime (IFPR)) for MiFID investment firms. The purpose of the IFPR is to streamline and simplify the prudential requirements for solo-regulated investment firms and to refocus prudential requirements to consider the potential for harm to consumers and markets as well as the firm itself. This includes new requirements relating to Capital and Own Funds, Liquidity, Internal Governance, Remuneration, and Disclosure and Reporting for in-scope investment firms. The new rules are set out in a new prudential sourcebook (MIFIDPRU) which implements IFPR and requires Davy UK (the Firm) to make certain public disclosures under Chapter 8. The MIFIDPRU 8 disclosures aim to drive market discipline in investment firms that come under IFPR by requiring disclosure of information to key stakeholders, particularly investors and counterparties. The disclosure seeks to describe the Firm's financial strength (own funds), behaviour and culture (risk management, governance, and remuneration).

Davy UK was subject to the former IFPRU sourcebook for the period 31 December 2020 to 30 December 2021 and to the IFPRU Remuneration Code up to 30 December 2022. The applicable legislation was the UK equivalent of the European Union's (EU) Capital Requirements Directive 2013/36/EU (the UK CRD IV) and associated Capital Requirements Regulation (EU) No 575/2013 (the UK CRR) that applied to investment firms authorised under Parts III and IV of the Financial Services and Markets Act 2000 (as amended).

1.2 Structure and scope

The disclosures made in this document relate to J & E Davy (UK) Limited. Davy Private Clients UK, Davy UK and Davy Capital Markets UK are the trading names of J & E Davy (UK) Limited. J & E Davy (UK) Limited is authorised and regulated by the Financial Conduct Authority (the Firm Reference Number is 172140). These disclosures provide a level of detail that is appropriate to the size and internal organisation of the Firm, and to the nature, scope, and complexity of its activities.

The Firm holds permissions to carry on its regulated activities in the UK including managing investments, arranging (bringing about) deals in investments and making arrangements with a view to transactions in investments, and advising on investments (including advising on pension transfers and opt-outs). The Firm's permissions also include dealing in investments as principal and as agent and arranging safeguarding and administration of assets. The Firm also carries out insurance distribution activities. It can control but cannot hold client money.

The Firm is classified under MIFIDPRU as a Non-Small and Non-Interconnected Investment Firm ("Non-SNI MIFIDPRU investment firm"). As such, MIFIDPRU 8 requires Davy UK to disclose information on the following areas:

- Risk management;
- Governance arrangements;
- Own funds;
- Own funds requirements and
- Remuneration policies and practices (from the performance period commencing on 31 December 2022).

These MIFIDPRU 8 disclosures have been prepared as at 30 December 2022 which is the accounting period end date. J & E Davy (UK) Limited is a wholly owned subsidiary of J & E Davy Holdings Unlimited Company ("Davy Group"), a company incorporated and registered in Ireland. Bank of Ireland Group ("BOIG"), a company incorporated and registered in Ireland, is the ultimate parent of Davy UK.

1.3 Frequency, location and verification of disclosures

This disclosure has been prepared to fulfil the Firm's regulatory requirements under the UK IFPR regime and to provide information and transparency to its key stakeholders on its risk management environment (including its objectives and policies), its governance arrangements, financial strength and culture. Whilst the disclosures have been reviewed and approved by J & E Davy (UK) Limited's Board of Directors ('the Board'), it has not been subject to an audit by the Firm's external auditors. Accordingly, this disclosure must not be relied upon solely when making any financial judgement on the Firm. The Board have agreed that the MIFIDPRU 8 disclosures should be made at least annually and that the publication of these disclosures on the company's website (www.davyuk.co.uk) is the most appropriate medium.

2. Risk Management Objectives and Policies

2.1 Risk and Compliance Governance

The Board is ultimately responsible for the management of the Firm including the setting of risk management policies within the Board approved Risk Appetite Statement. The Directors are appointed based on their skills, qualifications and experience whilst ensuring that they have appropriate time to devote to their responsibilities as a Board member in consideration of the commitments of other professional roles they may have.

The Board meets on, at least, a quarterly basis and more frequently should the need arise. There is a formal structure for the management and reporting of risk to the Board. Day to day executive management of the Firm is delegated by the Board to the Senior Management Team, which comprises the heads of functions in the Firm, who are responsible for identifying and managing the risks in their respective business areas. The Senior Management Team meet at least quarterly, in advance of the scheduled board meetings.

Davy UK operates a three lines of defence model and has an independent compliance and risk function. This function reports to the Boards of both Davy UK and its immediate parent, J & E Davy Holdings Unlimited Company ("Davy Group Board"), via the respective Davy Group functions, overseen by the Davy Group Chief Risk and Regulatory Officer. Davy UK is therefore accountable to the relevant Davy Group Board Committees as part of the governance arrangements that are set out in Section 3.

2.2 Risk Strategy

Davy UK seeks to optimise its performance, subject to remaining within its Risk Appetite, and meeting the expectations of its stakeholders. Davy UK's overarching risk strategy is to invest its available capital to optimise the balance between risk and return, and achieve its business strategy, whilst maintaining appropriate levels of capital.

The Risk Strategy is achieved through:

- promotion of a strong risk culture within the organisation;
- robust processes in place to manage the Firm's material risks via the Risk Management Framework and related governance documents;
- risk management being embedded throughout the business, based on setting a clear Risk Appetite and staying within this appetite.

The next sub-sections describe the risks associated with the business strategy as approved by the Board.

2.3 Risk Management

Risk Management is the set of activities and mechanisms through which Davy UK makes risk-taking decisions and the risk-return profile of the Firm is controlled and optimised. Good risk management aligns with Davy UK's strategic objectives, code of conduct and stakeholder priorities. Risk Management is central to the financial and operational management of financial services companies and fundamental to Davy UK's strategic priorities of:

- Best network
- Best people
- Simple and efficient
- Social licence

Risk Management is a Davy Group-wide process of identifying, assessing, monitoring, and mitigating risks to performance, reputation, and regulatory standing.

2.4 Risk Identification

The first step in managing risk is to identify the risk. A standard Risk Library is used to categorise all Davy UK's risks in a consistent manner. Once a risk has been identified, it must be assessed to determine the level of gross risk exposure and, after consideration of any mitigants, the residual risk exposure can be determined. These measurements (gross risk exposure and residual risk exposure) inform metrics used to monitor and control the Risk Profile against Risk Appetite.

2.5 Risk Assessment

The potential harms associated with the business strategy of the Firm and the processes used to manage these are set out in the table below. The overall objective of the Firm's strategy is to maximise shareholder value within a risk-controlled environment and to deliver exceptional client outcomes.

The Firm is responsible for ensuring that it has the appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operations of the business or from winding down the business and to hold adequate financial resources for the business it undertakes. To ensure the above, it actively identifies and assesses the risks and potential harms associated with its key business strategy, ongoing operations, business changes or external threats, as well as identifying and assessing the quality of controls in place to mitigate the associated risks and reduce the potential material harms. These assessments are completed using various components of the Firm's risk framework, including the Internal Capital and Risk Assessment Process ("ICARA"), the Firm's Risk Control Self-Assessment ("RCSA") process, Operational Risk Events' Reporting, and Key Risk Indicators ("KRIs"), as well as through the various risk reporting components of the risk committees, such as reporting of Top and Emerging risks. The Firm believes that these robust risk management processes are effective in mitigating risks and limiting harms to clients, the market and the Firm.

Risk	Harm	Strategies and processes to manage risk
Credit Risk	Harm to Firm	**Credit risk is the risk of default from counterparties for deposits, loans, commitments, securities and other assets where there is a risk that contractual payment obligations may not be met.** Credit risk arises in the Firm from bank exposures and client activity. As part of the Firm's business operations and cash management procedures, it conducts business with regulated credit institutions through current accounts and holds deposits with UK regulated credit institutions. The Firm holds the majority of its Cash and Cash Equivalents with Pillar banks (Danske Bank and Bank of Ireland). Risk Management: • Davy UK monitors banking exposures on a daily basis and credit risk assessments are performed as required, but at least on an annual basis. • Established operational policies, procedures and controls exist around the collection of receivables and identification and follow-up of at-risk balances. • Daily monitoring of cash deposits, and direct holdings in equity against limits. • The majority of Davy UK's transactions are settled on a Delivery-Versus-Payment ("DvP") basis, which minimises counterparty risk.
Group Risk	Harm to Firm	**Group risk is the risk that the financial position of the Firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group (J & E Davy or Bank of Ireland Group) or by risks which may affect the financial position of the whole group, for example reputation contagion or parental default.** The Firm is reliant on its immediate parent (J & E Davy) for central management functions such as Information Systems, Platform Management, Client Asset Management, Legal and Human Resources functions. Risk Management: • The Firm is a separate legal entity and has its own senior management team and Board of Directors which operate together with support teams to fulfil its business plan, independent of other Group entities. Consequently, is believed that, should its parent enter administration, the Firm could continue to operate as a stand-alone business. • The Firm has an Outsourcing Services Agreement in place with its immediate parent which outlines its obligations and the charge to Davy UK for these services. • The Firm has annual management charges payable to Group for these services which could be otherwise externally provided at a similar cost should the services not be available from the Parent.

Risk	Harm	Strategies and processes to manage risk
Liquidity Risk	Harm to Firm/ Client	**Liquidity risk is the risk that the Firm does not have available sufficient financial resources to enable it to meet its regulatory liquid asset requirements, or obligations as they fall due or can secure such resources only at excessive cost.** The Firm has a simple liquidity model generating cash from fees charged to clients, pays staff and third-party vendors as part of its ongoing business activities. Therefore, its balance sheet is predominately made up of cash and short-term debtors and creditors, including intercompany balances. Risk Management: • Daily monitoring by a member of the Finance team is carried out on capital and liquidity balances, which includes the review of variance triggers and limits in line with internal thresholds. Daily balances are recorded and circulated to key stakeholders. • Cash is held in a number of different Pillar banks addressing counterparty risk and the risk of any bank operational resilience issues that may prevent the Firm accessing its liquid resources. • Liquidity is monitored against the Risk Appetite Statement and Early Warning Indicator metrics (representing internal triggers and limits) and external regulatory requirements (representing hard limit(s)). • In considering liquidity needs, a forward-looking assessment is undertaken and haircuts incorporated, where applicable, to key inflows, as well as applying stresses to significant outflows to demonstrate that the Firm can maintain adequate financial resources.
Market Risk	Harm to Firm	**Market risk is the risk that the Firm's financial position may be subject to loss or volatility because of fluctuations in the market value of positions in the fund's portfolio attributable to foreign currency exchange rates, interest rates and equity prices of assets.** Risk Management: • The business model of the Firm is based principally on diversification which should allow for a reduced impact on fees earned if external market conditions are volatile. • Potential stresses and impacts are modelled through the ICARA process, and capital tested to ensure that the Firm can operate effectively within its regulatory requirements. • End of day and daily Value-at Risk positions and limits are monitored daily and reported within the Firm's Risk Appetite limits.
Operational Risk	Harm to Clients, Market and Firm	**Operational Risk is the risk of harm or loss resulting from inadequate or failed internal processes, people, systems or from third party or external events.** Operational risk arises in the Firm due to failure to adhere to internal processes, breaches of controls, the risk of IT system failures, cyber-attack risk, safety and security risk, data risk, model risk, tax and legal risk, third party management risk and business continuity risk. Risk Management: • The Risk Management Framework includes details of the controls, reporting and resolution for each operational risk. The Senior Management Team and Board monitor operational risk regularly against Key Risk Indicators (KRIs). • A dedicated risk team in the first line of defence manage the Risk Management Framework, which includes business line risk and control assessment, error reporting and resolution, key risk indicators and other risk management activities such as Board and committee reporting. • The Firm's Compliance department, as the second line of defence, is involved in the day-to-day monitoring of internal controls and investigate or escalate any issues when necessary. • The Davy Group's internal audit department, as the third line of defence, also carry out testing of internal controls. • Sources of operational risk are monitored through regular review of Key Risk Indicators ("KRIs") and the Risk Control Self-Assessment ("RCSA") process. • Operational Resilience Framework governs the risk of loss from operational disruption due to failure to identify, prepare for, respond and adapt to disruptions both internal and external.

Risk	Harm	Strategies and processes to manage risk
		• Operational risks are also considered when reviewing the Top harms of the Business and inform the Firm's internal assessment of own funds and liquid assets requirements.
Reputational Risk	Harm to Firm	**Reputational risk is defined as the risk of loss resulting from damage to a Firm's reputation, in lost revenue or increased operating, capital or regulatory costs consequent to an adverse or potentially criminal event.** Integrity and reputation are highly valued within Davy UK due to the nature of the business. Damage to the Firm's reputation because of compliance, regulatory and operational breaches, or errors would erode investor confidence and result in loss of business, loss of revenue and could result in key employees leaving. The risk of negative stakeholder perception due to an event or series of events by Davy UK and/or its people. Reputational risk can occur in a number of ways: directly as a result of actions by the Firm itself, indirectly due to actions of an employee or employees or through other parties connected directly or indirectly to the Firm. Risk Management: Sources of reputational risk include conflicts of interest, governance weaknesses or failures, poor conduct and products not performing as expected. Davy UK acts in the best interests of clients and is committed to always placing their interests first. To help ensure this, the Firm has strong risk frameworks and tolerances to ensure that inherent conflicts of interest do not disadvantage clients; that products and investment services operate as described and meet the promises and risk levels agreed; and that clients are not exposed to failures of governance or regulatory compliance. • Senior Management Team in place to address reputational matters and issues that arise while acting in the best interest of clients. • External and client communications reviewed and supported by Group Marketing Team and Risk and Compliance Team. • Client engagement surveys undertaken annually and results feed into and help to inform brand positioning workshops and Davy UK brand strategy. • Risk training mandatory for all employees to increase awareness and ensure harms arising from conduct risk are mitigated. • Suitability of products and services to clients is monitored at all times to deliver fair customer outcomes.
Strategic Risk	Harm to Firm	**Strategic risk is the risk that the Firm's strategy is inadequate (in scope and/or execution) to deliver a profitable business and meet its strategic objectives.** Risk Management: • Operating within agreed and approved Risk Appetite thresholds which are monitored and updated regularly. • Strategy Performance Measurement carried out quarterly using Balanced Scorecard reporting and variances to the Strategic Plan (denoting deviations and framing conversation on management intervention for underperformance). • Structured Board Agenda with Strategic updates being delivered by relevant accountable business members.
Concentration Risk	Harm to Firm	**Concentration risk is the risk arising from the strength or extent of the Firm's relationships with, or direct exposure to, a single client group of connected clients or institution.** Concentration risk is low in the Firm and monitored on an ongoing basis. The largest concentrated asset is the Cash deposits held with the Firm's banking institutions. Risk Management: • The Firm does not have a material concentrated relationship to any client or group of connected clients. The Firm has a diverse spread of product types and a varied client base. • The Firm monitors the concentration of client balances to maintain low levels of concentration risk. • The Firm operates a diversity policy in its banking institutions. • End of day position and trade receivables are also monitored regularly to ensure they are within the Firm's risk limits.

Risk	Harm	Strategies and processes to manage risk
Business Risk	Harm to Firm	**Business risk is the risk that the Firm will have lower than anticipated profits or experience loss rather than delivering a profit.** Business risk could arise from exposure to a wide range of macro-economic, geopolitical, industry, regulatory, client behaviour, inappropriate management actions, and other external risks that might deflect from desired strategy and business plans. Market levels affect Asset Under Management (AUM) levels which in turn affect profitability, as fees (which are the main source of Davy UK's revenue) are typically set as % values of AUM. Risk Management: • As part of the ICARA process the Firm has completed several stress tests that directly challenge the Firm's ability to withstand the harms associated with its business risk(s). • The Board has established Risk Appetite KRIs that will begin flagging if certain types of business risk begin to impact on the Firm's AUM levels and profitability.

2.6 Risk Appetite

Risk control is predicated on setting effective boundaries and constraints on risk taking. Determining Davy UK's Risk Appetite and setting management triggers, across the categories of risk the Firm has identified, allows it to design its business processes to operate within appropriate risk levels.

2.7 Risk Categories

In line with the IFPR categorisation of risks, the following sets out the Firm's risk management objectives and policies in place to reduce the potential for risk to:

- our clients;
- the market; and
- the firm.

2.8 Risk to Client

Risk to Client addresses risks carried by an investment firm during the undertaking of its services, actions, or responsibilities, which could negatively impact clients. Risk to Client within Davy UK comprises of K-AUM and K-COH.

K-AUM (Assets Under Management)
K-AUM relates to the value of assets that an investment firm manages for its clients under both discretionary portfolio management and non- discretionary arrangements constituting investment advice of an ongoing nature. K-AUM includes assets where the investment firm has formally delegated management to another entity. K-AUM excludes assets where another financial entity has formally delegated the management of the assets to the investment firm.

To determine the K-AUM capital requirement, the sum of the most recent 15 months of AUM, excluding the 3 most recent months values is multiplied by a coefficient of 0.02%.

Clients who avail of Davy UK's Discretionary and Advisory Portfolio management service are managed using an extensive process aligned with their investment objectives and their willingness and ability to bear investment risk. On an annual basis a statement of ongoing suitability is issued to clients following a reassessment of their circumstances. These procedures are designed to mitigate potential harm to clients by reducing the risk of unsuitable advice and poor client outcomes.

K-COH (Client Order Handling)
K-COH relates to the value of orders that an investment firm handles for clients, through the reception and transmission of client orders and through the execution of orders on behalf of clients.

K-COH includes transactions executed by investment firms providing portfolio management services on behalf of investment funds.

However, K-COH excludes transactions handled by an investment firm that arise from the servicing of a client's investment portfolio where the firm already calculates K-AUM in respect of that client's investments or where this activity relates to the delegation of management of assets to the investment firm not contributing to their AUM.

To determine the K-COH capital requirement, the sum of the most recent 6 months of COH, excluding the 3 most recent months values is multiplied by a coefficient of 0.1% (cash trades) and/or 0.01% (derivatives).

Davy UK is required to execute orders on terms that are most favourable to its clients (termed 'best execution'). This requires Davy UK to take all sufficient steps to obtain the best possible result for clients in the execution or placement of such orders. In order to meet the obligation to obtain the best possible result for the execution of client orders, Davy UK transmits order to, or places order with J & E Davy, another company in the Davy Group, who execute these orders using an authorised list of execution venues. These procedures are designed to mitigate potential harm to clients by reducing the risk of poor client outcomes. In certain circumstances, Davy UK transmits orders to other third-party platforms for execution – these third-party platforms also have an obligation to achieve best execution for clients.

2.9 Risk to Market

Risk to Market relates to the impact an investment firm could have on the markets in which it operates, and on those counterparties with whom it trades. Risk to Market is defined as the potential for adverse change in the value of financial instruments from movements in stock prices, currency exchange rates and interest rates. Risk to market for Davy UK comprises of K-NPR.

K-NPR (Net Position Risk)
K-NPR relates to the value of transactions recorded in the trading book of an investment firm. There is no coefficient applied in determining the K-NPR capital requirement. K-NPR comprises of position risk in relation to equity instruments and foreign exchange risk.

Davy UK is a market maker in equities.

The Firm calculates both specific and general capital risk requirements on equity positions in accordance with the IFPR. This calculation is based on 8% of the long and the short holdings, and 8% of the net positions.

The Market Risk Policy is reviewed by the Group Market Risk Underwriting Committee (MRUC) and approved by the Davy Group Board. The market risk policy statement sets out the markets and instruments in which the trading desks are permitted to transact and the risk management tools utilised in managing market risk.

The principal tool used to measure risk and control market risk exposure within the Firm's listed trading portfolios is Value at Risk (VaR). The VaR methodology is used to estimate, based on certain assumptions, the maximum likely loss, in market value terms, for existing risk positions. The VaR of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified probability (confidence level) by reference to relevant historical data and market standards. It allows Davy UK to measure and control the risk exposure in a portfolio.

Foreign exchange risk is the net exposure of foreign currencies on Davy UK's balance sheet. The Firm is exposed to foreign exchange risks in the normal course of business where market settlement may occur in a different currency to that in which a security is dealt.

These procedures allow Davy UK to reduce the likelihood of harm to the market by managing the extent of the exposures.

2.10 Risk to Firm

Risk to Firm captures risks to an investment firm's solvency from its trading activity and market participation. Risk to Firm for Davy UK comprises of K-DTF, K-CON.

K-DTF (Daily Trading Flow) and K-CON (Concentration)
K-DTF relates to the daily value of transactions that an investment firm enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that an investment firm handles for clients through the reception and transmission of client orders and through the execution of orders on behalf of clients which are already considered in the scope of K-COH. To determine the K-DTF capital requirement, the sum of the most recent 9 months of DTF, excluding the 3 most recent months values is multiplied by a coefficient of 0.1% (cash trades) and/or 0.01% (derivatives).

K-CON relates to exposure in the trading book of an investment firm to a client or group of connected clients which exceeds the limits in the IFPR. There is no coefficient applied in determining the K-CON capital requirement.

Credit risk is the risk of default from counterparties for deposits, loans, commitments, securities and other assets where there is a risk that contractual payment obligations may not be met.

The Firm has policies and procedures in place to ensure that institutional counterparties are of appropriate credit worthiness. The Firm has no significant concentration of counterparty credit risk, with exposure spread over a large number of counterparties and customers mainly within the financial services sector.

In relation to its Wealth Management business the Firm does not consider that, given the breadth of its client list and the volume of trades, there is a significant risk of client default that would be material in the context of its Wealth Management business.

In addition, Wealth Management receivables are managed and controlled using well-defined policies and procedures, which are independently managed and reviewed, within the Finance department.

The trading book counterparty base of the Firm is predominantly investment banks, credit institutions, investment firms and fund managers. Institutional trades are settled on a delivery versus payment ("DvP") basis within a two-day settlement cycle and therefore exposure to counterparty credit risk is limited. In addition, the Firm has policies and procedures in place to ensure counterparties are of appropriate credit worthiness and that limits are set and monitored to restrict potential losses.

3. Governance Arrangements

3.1 Davy UK Board

The Board sets the Firm's strategic aims, ensuring that the necessary financial and human resources are in place for the Firm to meet its objectives and review management performance. The Board sets the Firm's values and standards and ensure that its obligations to its shareholders and others are understood and met. The Board defines, oversees and is accountable for the implementation of governance arrangements ensuring effective and prudent management of the Firm, including the segregation of duties in the organisation and prevention of conflicts of interest, and in a manner that promotes the integrity of the Firm, the market and the interests of clients. In 2022, the Davy UK Board comprised two non-executive directors (until 12 October 2022; thereafter 1 non-executive director), and four executive directors, representing both business areas in the Firm - wealth management and capital markets. The Board meets at least quarterly and attends to scheduled matters as set out in the J & E Davy (UK) Governance Framework, other matters brought to the attention of the Board and any recommendations requiring Board approval and/or action. Minutes are kept of all meetings.

3.2 Davy Group Risk and Compliance Committee (RCC)

Davy UK's governance arrangements do not include a separate Risk Committee and it is not required to have one. The Davy UK Board has ultimate responsibility for risk management within the Firm and relies on the Group Risk and Compliance Committee to advise it in this area. The primary purpose of the Davy Group Board Risk and Compliance Committee ('RCC') is to provide advisory review and oversight across the Davy Group, including J & E Davy (UK) Limited, for all categories of financial and non-financial risk, in the context of its risk appetite and ensuring that an appropriate risk framework is in place. The RCC ensures compliance with the relevant laws, rules and regulations together with Davy Group internal policies and procedures.

The RCC has been appointed by the Board of J & E Davy Holdings and established to assist it in discharging its responsibilities on a range of risk and compliance matters. The RCC is the governance body responsible for oversight of risk activities other than those that are the responsibility of the Davy Group Board or that have been explicitly delegated to other Davy Group Board Committees. The RCC is responsible for assessing the Firm's control framework and for designing, implementing and ensuring that the Davy Group's risk management framework operates effectively.

3.3 Davy Group Audit Committee

The Davy Group Board is ultimately responsible for all matters relating to the presentation of Financial Accounts and Statutory Returns and the audit thereof. The primary responsibility of the Davy Group Audit Committee is to assist the Davy Group Board in fulfilling its responsibilities for ensuring independent oversight of the quality and integrity of accounting policies, financial reports and disclosure practices. The Davy Group Audit Committee is also responsible for ensuring the appropriateness, completeness and effectiveness of internal control, risk management, and accounting and financial reporting systems. The Davy Group Audit Committee assesses the adequacy of arrangements by which staff may raise concerns about possible improprieties in matters over financial reporting and it considers the independence and performance of the internal and external auditor. The Davy Group Audit Committee carries out its responsibilities mainly through regular contact with the external and internal auditors, and management.

3.4 Davy Group Remuneration Committee

The key responsibilities of the Davy Group Remuneration Committee are to oversee the design and implementation of the Davy Group's overall Remuneration Policy for employees and executive directors which is designed to support the long term business strategy, values and culture of the Davy Group: putting the customer first, promoting effective risk management and discouraging excessive risk taking; providing advice to the Davy Group and subsidiary Boards on applicable remuneration requirements; overseeing the operation of the Davy Group-wide remuneration policy and practices for all employees, with specific reference to Material

Risk Takers ("MRTs"); keeping the Davy Group Remuneration Policy under regular review and, if necessary, making recommendations to the Davy Group Board for updates.

The Committee comprises at least three non-executive Members, two of whom are Independent Non-Executive Directors with an appropriate mix of skills and experience. The Committee meets three times per year, and takes input, advice and guidance from internal or external experts, as required. The Committee is authorised by the Board of J&E Davy Holdings Unlimited Company, inter alia, to investigate any matter falling within its terms of reference or undertake or consider on behalf of the Chair of the Davy Group Board, or the Davy Group Board, such other related tasks or topics as they may from to time entrust to it. It also makes any recommendations to the Davy Group Board which it deems appropriate on any area within its remit where action or improvement is needed; sub-delegate any or all of its powers and authority as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues or themes and to report to the Committee, to facilitate the effective carrying out of its responsibilities; to seek any information it requires from any employee of the Davy Group. The Davy UK Board is the ultimate decision-maker in relation to remuneration and awards as they apply to Davy UK, with oversight by the Group Remuneration Committee.

3.5 Davy Group Market Risk and Underwriting Committee

The Market Risk and Underwriting Committee oversees and approves all underwriting activity within Davy and is responsible for the approval of the Market Risk Policy. The Committee comprises Davy Group Executive Directors and the Davy Group Board Chairman.

3.6 Three Lines of Defence

Davy UK's risk culture starts with the "tone from the top", set and supported by the Board and the Senior Management Team. A sound risk culture drives and supports risk awareness, desired behaviours and judgements about risk-taking.

Davy UK has adopted the Three Lines of Defence (3LoD) risk governance model to support its integrated approach to manage risk. The model distinguishes between three key groups or lines of defence at the Firm, that are all involved in the identification, management and reporting of risk. The First Line of Defence (1LoD) includes the business lines that own and manage the Firm's risks. They have primary responsibility for managing risk, which includes identifying risks and assessing, measuring, managing, monitoring and reporting risk exposures. The Second Line of Defence (2LoD) designs and develops the relevant risk management frameworks to support the 1LoD's risk management activities and provides oversight, challenge and advice to the 1LoD in the implementation of the frameworks. The 2LoD involves Risk Management and Compliance performing independent review and challenge to facilitate an effective control framework. The Third Line of Defence (3LoD), which consists of Davy Group's Internal Audit function including its co-sourced external subject matter experts, performs independent assurance and objective testing of Davy UK's risk and control environment and processes with the aim of providing the Board / Senior Management with a level of comfort that the Firm's governance, risk management and control activities are adequate and operating effectively.

Employees at all levels are responsible for the management of risks. All employees are expected to exhibit behaviours that support a sound risk culture where risk is simply part of the way we work and think. This involves all Davy UK staff knowing what to look out for, challenging what is happening around them and being risk-aware at all times.

3.7 UK Compliance and Risk Function

The Davy UK Risk team provides an integrated, second line of defence function led by the Head of Compliance and Risk (UK), who is also the Firm's Money Laundering Reporting Officer (MLRO). The Davy UK Risk team is responsible for monitoring and assessing the adequacy and effectiveness of the measures and procedures in place to detect any risk of failure by the firm to comply with its obligations under the regulatory system and the actions taken to address any deficiencies in the Firm's compliance with its obligations; and for advising and assisting the Firm's management and staff in complying with their regulatory obligations. The function oversees and advises on compliance with the relevant parts of the UK's Money Laundering Regulations and the MLRO makes reports to the external bodies as required.

The UK Risk team is responsible for ensuring effective risk management, for facilitating the setting of Risk Appetite by the Board and providing ongoing assurance to the Board that the Firm is operating within its Risk Appetite. The Head of Compliance and Risk (UK) is responsible for implementing and maintaining Davy UK's Risk Management Framework (RMF) and the development of appropriate policies to strengthen risk management throughout Davy UK.

The Head of Compliance and Risk (UK) provides a quarterly report to the Board of Directors and will inform senior management of matters requiring attention, build and maintain strong relationships with the regulator and ensure sufficient subject matter expertise within the function.

3.8 Davy Group Internal Audit function

Davy Group's Internal Audit function (third line of defence) includes co-sourced external subject matter experts, who perform independent assurance and objective testing of the governance, risk and control environment and processes with the aim of providing the Davy Group Audit Committee and Management with a level of comfort that the Davy Group and its subsidiaries' governance, risk management and control activities are adequate and are operating effectively.

The Davy Group Internal Audit function has no direct authority for or responsibility over any activities under review. This independence of audited activities ensures the unbiased judgements essential to its proper conduct and impartial advice to management.

The Davy Group Chief Internal Auditor (CIA) reports to the Davy Group Audit Committee each quarter, including a report on management's self-assessed status of its implementation of Internal Audit recommendations. The CIA will confirm to the Audit Committee, at least annually, the independence of the function.

3.9 Directorships held by Management Body

As the Firm is a non-SNI MIFIDPRU investment firm it is obliged to disclose the number of directorships (executive and non-executive) held by each member of the management body. This information is listed in the below table.

Position within the Firm	Number of directorships (executive and non-executive) held
Chairperson (to 12 October 2022)	3
Chairperson (from 2 March 2023)	1
Director	2
Director	1
Director	3
Director	1

3.10 Diversity of the Management Body

The Davy Group's Firm's Diversity Policy is committed to achieving an appropriate blend and balance of diversity over time. The Firm recognises that diversity in its widest sense is important and embraces the benefits of diversity among its own members, including diversity of skills, experience, background, and gender.

In 2023, the Davy UK Board set gender diversity targets in its Balanced Scorecard which includes the number of females in management roles. The Davy UK Board will take these targets into consideration when implementing its succession plans.

3.11 Overall Financial Adequacy

The Firm's capital and liquidity management objectives are to comply at all times with the Overall Financial Adequacy Rule (OFAR) which is the obligation for a MIFIDPRU investment firm to hold own funds and liquid assets which are adequate, both as to their amount and quality, to ensure that:

- The Firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harms that may result from its ongoing activities; and achieve its objectives having regard to the Board approved Risk Appetite and the Firm's Strategy; and
- the Firm business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Through its ICARA process, the Firm has identified that holding the own funds and basic liquid asset requirements is sufficient for the Firm to meet the OFAR. This outcome has been determined through the various components of the ICARA process, which include, a business model and activity assessments, operational risk scenario reviews, economic and business strategy stress testing, liquidity stress testing and orderly wind-down planning. Details of Own Funds and Own Funds Requirements are set out below.

3.12 Internal Capital Adequacy and Risk Assessment Process ("ICARA")

In line with the requirements of IFPR, Davy UK prepares an ICARA focused on an assessment of its capital and liquidity adequacy and to determine the risks to which it is exposed and the potential harm it can cause, how those risks and potential harms are mitigated, if its risk management is effective, and if it has adequate financial resources having made this assessment. The ICARA is a key component of the Firm's implementation of the IFPR.

Risk management in Davy UK is an ongoing process and the ICARA review complements the risk monitoring and reporting that takes place on an ongoing basis, including Board reporting around it. The ICARA process has appropriate governance, systems, and controls in place to identify, assess and manage key risks to the Firm's strategic priorities and financial, capital and liquid resilience. Ongoing monitoring of risk levels, risk appetite, stress test results and relevant indicators is performed throughout the year to ensure that the Firm continues to hold adequate financial resources. The ICARA demonstrates that the Firm has sufficient surplus capital and liquid resources, at a point-in-time and on a forward-looking basis to support its business and achieve its objectives, having regard to the Board approved Risk Appetite and the Firm's strategy while meeting its regulatory capital and liquidity requirements. The ICARA, in conjunction with the Firm's Wind Down Plan, demonstrates that appropriate funds are in place that will minimise harm to consumers and the overall market in a wind down situation.

4. Own Funds

As at 30 December 2022 and at all times throughout the period, the Firm complied with the regulatory capital requirements as set out below.
Under MIFIDPRU 8, the Firm is required to disclose the following information of the Firm's own funds:

1. A reconciliation of common equity tier 1 items (CET1), additional tier 1 items (AT1), tier 2 items (T2), and the applicable filters and deductions applied in order to calculate the own funds. (See 4.1 below).
2. A reconciliation of capital in the audited financial statements with the Firm's own funds calculation. (See 4.2 below).
3. A description of the main features of CET1, AT1 and T2 instruments. (See 4.3 below).

4.1 Composition of regulatory own funds (OF1)

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	11,014	
2	**TIER 1 CAPITAL**		
3	**COMMON EQUITY TIER 1 CAPITAL**		
4	Fully paid-up capital instruments	6,630	a
5	Share premium	0	
6	Retained earnings	(785)	b
7	Accumulated other comprehensive income	0	
8	Other reserves	9,867	c
9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(4,698)	d
19	CET1: Other capital elements, deductions and adjustments	0	
20	**ADDITIONAL TIER 1 CAPITAL**		
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
25	**TIER 2 CAPITAL**	0	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

4.2 Own Funds: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		Balance sheet as in published/audited financial statements (As at period end)	Under regulatory scope of consolidation (As at period end)	Cross-reference to Template OF1 (As at period end)
Assets – *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Property, plant and equipment	367		
2	Intangible assets	4,046		OF1 row 11 (d)
3	Right-of-use asset	943		
4	Deferred tax asset	652		OF1 row 11 (d)
5	Trade and other receivables	1,068		
6	Financial assets held at fair value through profit or loss	546		
7	Cash and cash equivalents	13,092		
8	Corporation tax	229		
	Total Assets	20,943		
Liabilities – *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Lease liability	783		
2	Provisions	363		
3	Deferred tax liability	742		
4	Trade and other payables	2,964		
5	Financial liabilities at fair value through profit or loss	379		
	Total Liabilities	5,231		
Shareholders' Equity				
1	Called up share capital	6,630		OF1 row 4 (a)
2	Retained earnings/(loss)	(785)		OF1 row 6 (b)
3	Capital contribution reserve	9,867		OF1 row 8 (c)
4				
	Total Shareholders' Equity	15,712		

4.3 Own funds: main features of own instruments issued by the Firm

Own funds: main features of own instruments issued by the firm	
Public or private placement	Private
Instrument type	Ordinary Shares
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date)	6,630
Nominal amount of instrument	6,630
Issue price	£ 1 per share
Redemption price	£ 1 per share
Accounting classification	Shareholder's Equity

5. Own Funds Requirement (OFR)

The Firm must maintain own funds at all times that are at least equal to its own funds requirement.

The "Own Funds" requirement is the highest out of the following three calculations:

(a) **Permanent Minimum Capital Requirement**: The minimum level of own funds a firm must hold at all times in order to operate, which is defined by the regulation and is at £750,000.
(b) **Fixed Overhead Requirement**: This is a calculation of a minimum amount of capital that Davy UK would require in order to absorb losses in a wind-down scenario. This is equal to ¼ of the Firm's relevant expenditure in the preceding year.
(c) **K-Factor Requirement**: This is a calculation of a minimum amount of capital that Davy UK would require in order to fund ongoing business operations.

The K factors are directly related to the potential for harm posed by the Firm's business strategy and are monitored on a daily basis. The FOR is the higher requirement and therefore is the Firm's Own Funds Requirement.

5.1 K-Factor Calculation

K-factor Calculation	
K-factor	**Value (£'000)**
K-AUM + K-CMH + K-ASA	340
K-COH + K-DTF	20
K-NPR + K-CMG + K-TCD + K-CON	245
Total	**605**

5.2 Fixed Overhead Requirement (FOR)

The Firm's Fixed Overhead Requirement for the year amounts to £4,174k based on ¼ of the firm's expenditure. The FOR is the highest of the calculations required for the Own Funds Requirement and therefore is the Firm's OFR.

5.3 Approach in assessing adequacy of Own Funds

Formal procedures are in place to monitor and manage own funds on an active and timely basis. Total capital resources comprise share capital and audited retained earnings as per the 2022 audited financial statements of J & E Davy (UK) Limited with a deduction for Intangible and Deferred Tax Assets which do not qualify for regulatory capital purposes. Responsibility for day-to-day monitoring of capital adequacy rests within the Finance function. Daily reports are produced to monitor regulatory capital and updates on capital adequacy are distributed to the Board and senior management on a regular basis.

Own Funds held by the Firm	
	Value (£'000)
Level of Own Funds held	11,014
Own Funds Threshold	4,174
Excess of Own Funds held	6,840

6. Remuneration Policy and Practices

The Firm is subject to the MIFIDPRU Remuneration Code in SYSC 19G from 31 December 2022. Therefore, for the period to which these Disclosures apply, Davy UK remained subject to the IFPRU Remuneration Code in SYSC 19A and to the performance management criteria in SYSC 19F of the FCA Handbook. This section provides information on our remuneration policy.

6.1 Remuneration code staff

We have identified and maintain a record of 18 'IFPRU Remuneration Code Staff' in 2022 – i.e., staff to whom the IFPRU Remuneration Code applied during 2022. IFPRU Remuneration Code Staff are senior management and members of staff whose actions may have a material impact on the Firm's risk profile. Material Risk Takers (MRTs) at 30 December 2022 were defined as all Directors of Davy UK, including Non-Executive Directors, members of the Senior Management Team and employees who head a material business unit or are members of a committee that approve the introduction of new products. As at 30 December 2022, the number of IFPRU Remuneration

Code Staff was 18, of which 12 were "senior management" (including 4 Executive Directors and 2 non-executive directors) and 6 were other material risk takers for the purposes of the Remuneration Code.

6.2 Remuneration decision making

J & E Davy (UK) Limited does not have a separate Remuneration Committee. The Directors of J & E Davy (UK) Limited are responsible for the Firm's Remuneration Policy, and decisions about employees' remuneration are in line with the policy, which is reviewed by the Remuneration Committee of the Firm's sole shareholder, J & E Davy Holdings Unlimited Company. The Directors of J & E Davy (UK) Limited met at least once per quarter in the period. The Board of Directors is responsible for:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking;
- Agreeing any major changes in remuneration structures;
- Reviewing the terms and conditions of any new incentive schemes and, in particular, considering the appropriate targets for any performance related remuneration schemes;
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration;
- In determining remuneration arrangements, the Directors will give due regard to best practice and any relevant legal or regulatory requirements.

6.3 Link between pay and performance.

Market rate salaries and employer pension contributions form the basis of the Firm's remuneration package. In addition, there is an element of variable pay for all staff which is based on firm-wide and individual performance. While variable rewards are awarded to employees across the firm, the structure, balance and amounts will differ. Variable remuneration reflects a sustainable and risk adjusted performance by the employee while operating within applicable legislative and regulatory requirements. Where warranted by individual and company performance, variable remuneration is awarded annually and may be in the form of cash and/or employer pension contributions.

Performance and pay are linked in three ways: group performance, business department performance and individual performance. Individual performance is calibrated at department level and forms part of the formal year end process. When assessing individual performance, we use a robust performance review process which takes into account the employee's performance relative to agreed objectives and their behaviours relative to the Group's values. A mix of both qualitative and quantitative criteria is used where applicable. Variable remuneration may be withdrawn or considerably reduced in the event of subdued or negative financial performance of the firm or the Davy Group as a whole, or where warranted by individual conduct.

6.4 Quantitative disclosures

The FCA rules require certain firms to disclose aggregate information on remuneration. The Firm has two business areas- (i) wealth management (advisory, discretionary and execution-only); and (ii) Capital Markets trading.

Directors' remuneration is set by J & E Davy Unlimited Company, taking advice from its Remuneration Committee. There is a link between individual contribution to the successful achievement of the Firm's business objectives and total remuneration however, the Davy Group's performance management and risk frameworks manage any risks.

Our ratios between fixed and variable pay will vary across the business as it is based on role and individual performance. The starting point is at the basis of 10% of fixed pay rising to 80% of fixed pay for the highest revenue generators of the business.

The 2022 aggregate quantitative remuneration for the Firm's wealth management business line and capital markets business line is £5,591k and £2,695k respectively. The aggregate remuneration for the Firm's remuneration code staff as discussed in 6.1 was £1,419k for the period. All of this remuneration was in cash, employer pension contributions and, where relevant, deferred instruments. There were no severance payments and no one individual earned more than £500,000.

7. Conclusion

J & E Davy (UK) Limited continues to meet its regulatory requirements on a current and forward-looking basis for both capital and liquidity. Regulatory capital is held as protection against the risks of unexpected events and harms to Client, Market and Firm. The ICARA has provided an opportunity to assess, at least annually, the risks the business may be exposed to and also the harms which the business may impose on itself, its clients and the market following an assessment of the Firm's top risks. The Board is satisfied that the Firm continues to hold a level of regulatory capital and liquid resources that is more than adequate in the context of current and future planned business requirements in order to execute its business strategy.