

J & E Davy (UK) Limited – Pillar 3 Disclosures

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

1. Introduction

J & E Davy (UK) Limited (the “Firm”) is authorised and regulated by the Financial Conduct Authority (the “FCA”) under Parts III and IV of the Financial Services and Markets Act 2000 (as amended); the FCA Firm Reference Number is 172140.

The company is a wholly owned subsidiary of J & E Davy Holdings and is part of the Davy Group of Companies (the “Group”).

The Firm is categorised by the FCA as a BIPRU (P3) firm for prudential purposes and as a Flexible Portfolio firm for conduct purposes. The Firm holds permissions to carry on its regulated activities in the UK including managing investments, receiving and transmitting orders and giving investment advice (including advising on Pension Transfers and Opt Outs). The Firm’s permissions also include arranging deals in investments, making arrangements with a view to transactions in investments, and arranging safeguarding and administration of assets. It cannot hold client money. The Firm holds services passports into Ireland and Spain for the reception and transmission of orders and investment advice, and for Insurance and Reinsurance Distribution under the relevant EU Directives.

The Capital Requirements Directive (“CRD”) established a regulatory framework across the EU, governing the amount of capital that must be maintained by investment firms such as ourselves.

The CRD consists of three “Pillars”

- Pillar 1 sets out minimum capital requirements that we must maintain
- Pillar 2 looks at the Internal Capital Adequacy Assessment Process (“ICAAP”) that we undertake to satisfy ourselves that we hold sufficient capital to meet the risks associated with our business
- Pillar 3 requires us to disclose our policies and controls for managing risk and our capital requirements, as well as certain remuneration disclosures.

1.1 The Firm

This disclosure policy is for the Firm:

- J & E Davy (UK) Limited (FCA Firm Reference Number 172140), which is categorised by the FCA as a BIPRU (P3) Limited Licence firm for prudential purposes.

1.2 Disclosure

This disclosure has been prepared to fulfil our regulatory requirements under Pillar 3 and to provide information on our risk management environment and the implications for our capital requirements. The information is based on historical information and is updated on an annual basis. Whilst the disclosure has been reviewed by the Board of Directors, it has not been subject to an audit by the Firm’s external auditors. Accordingly, this disclosure must not be relied solely upon when making any financial judgement on the Firm.

2. Risk management objectives

The Firm has a compliance monitoring programme which has been designed around risks considered to be relevant to the firm. This is updated annually through a process taking input from relevant areas of the business.

The risks facing the Firm are identified and considered both from the perspective of the likelihood of their occurring and from the perspective of their potential impact on the firm should they occur. This high-level risk management plan is reviewed annually.

Compliance with Group standards is supported by a programme of ongoing review by senior management, with appropriate reporting mechanisms to the Firm’s Board and the Board and Committees of the Group. In addition, the Group Chief Risk Officer chairs the Group Executive Risk Management Committee which considers all business risks in the context of the Group Risk Management methodology, which is approved by the Group Board.

The ICAAP is prepared by Finance in conjunction with Risk and Compliance and the Firm's leadership team.

It is reviewed on an annual basis by the Group CFO, Head of Compliance in the UK and the J & E Davy (UK) Limited's Board of Directors.

The ICAAP considers all risks outlined in BIPRU 11 of the FCA Handbook. The main risks for the Firm are as follows.

2.1 Operational risk

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Firm's processes, personnel, technology and infrastructure, and from external factors other than credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Group Risk department has prepared a risk register which outlines these operational risks. These fall under the categories as set out below:

- Conduct Risk
- Financial & Capital Risk
- IT Risk
- Legal & Regulatory Risk
- Market Abuse
- Fraud Risk
- Other Operational Risk

The Firm's objective is to manage operational risk so as to minimise the risk of financial losses and damage to the Firm's reputation, with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Firm standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including the independent authorisation of transactions
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirement for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective
- Business continuity and disaster planning
- Information security including cyber/data loss related risk.

2.2 Credit risk

Credit risk is the risk that a customer or counterparty will be unwilling or unable to meet a commitment that it has entered into and that available collateral does not cover the Group's claims. Credit risk includes both settlement and delivery risk, or replacement risk. Credit risk is managed and controlled on the basis of established processes within a framework of defined policies underpinned by a system of independent review.

2.3 Liquidity risk

Liquidity risk is the risk that the ability to meet payment obligations cannot be achieved by the Firm at all times. The Firm is not reliant on borrowings to fund its operations. The business generates positive cash flows and the balance sheet has appropriate liquid resources amounting to £4.5M. The shareholder funds of J & E Davy (UK) Limited at 1 October 2018 amounted to circa £14.6M. The liquidity position of the Firm is monitored on a daily basis and management information on liquidity is provided on a regular basis to senior management.

2.4 Business risk

This is the risk that exposure to a wide range of macro-economic, geopolitical, industry, and/or regulatory factors might deflect a firm from its desired strategy and business plan. As part of the ICAAP we carry out stress-testing under different scenarios to assess the potential impact on the profitability and cash position of the Firm. We are confident that the structure of the Firm will allow it to manage through periods of market turbulence

2.5 People risk

People risks are managed in conjunction with the HR Department. The Firm is committed to attracting and retaining the best people and providing them with opportunities to achieve their full potential through a programme of learning and development activities. This ensures our people are equipped with the appropriate level of skills and knowledge related to their role. Each employee develops a personal development plan and receives regular feedback and performance discussions which feed into their annual compensation review. This approach to employee reward recognises their contribution to the success of the business, ensuring alignment with the Firm's strategy together with appropriate risk and behavioural accountability. As part of our strategic priorities and to drive engagement with employees and understand their needs, and ultimately improve performance, the Firm participated during the period in employee engagement surveys including the Great Places to Work initiative, covering a broad range of subjects.

3. Capital resources

As at 1 October 2018, J & E Davy (UK) Limited had total capital resources of £4.9m. The table below details its composition:

	Pillar 1	ICAAP
	Minimum capital (£000's)	Firm's Pillar 2 capital (£000's)
Shareholder Funds	14,592	14,592
Intangible Assets	(9,089)	(9,089)
Disallowable unaudited profit 2018	(606)	
Total Capital Resources	4,897	5,503

The capital requirements of the Firm are monitored on an ongoing basis to ensure that, at all times, there is sufficient capital in place. The Pillar 1 requirement at 1 October 2018 was £2.2m. It is calculated as taking the higher of the sum of operational and non-trading book risk or the Fixed Overhead

Requirement (the "FOR"). The FOR is calculated as being one quarter of the estimated annual fixed overheads of J & E Davy (UK) Limited. As the FOR was the higher in this case, we took the capital requirement as being £2.2m. Regulatory capital after deductions was £4.9m, resulting in a significant surplus.

4. Capital adequacy

The Firm's capital management objectives are as follows:

- To comply at all times with the regulatory capital requirements of the FCA
- To maintain a strong capital base to support the strategic development of the business.

Formal procedures are in place to monitor and manage capital resources on an active and timely basis. Responsibility for day-to-day monitoring of capital adequacy rests within the Finance function. Daily reports are produced to monitor regulatory capital and forecasts are distributed to the Board and senior management on a regular basis.

The total capital requirement is £2.2m. Regulatory capital after deductions was £4.9m, resulting in a significant surplus.

Each of the component parts of the total computed requirements (being operational risk, non-trading book risk and legal risk) are described in more detail below:

4.1 Operational risk

The firm has adopted the Basic Indicator Approach ("BIA") to calculate the Operational Risk requirement. The BIA total is calculated by taking 15% of the three-year average of net income.

4.2 Non-trading book requirement

The main items subject to a capital charge in the Firm's non-trading book are cash at bank balances, fixed assets and other non-trading book debtor balances. The non-trading book requirement is using the standardised approach (8% of the risk weighted exposure).

5. Remuneration code disclosure

The Firm is subject to the BIPRU Remuneration Code in SYSC 19C of the FCA Handbook. This section provides information on our remuneration policy.

5.1 BIPRU remuneration code staff

We have identified and maintain a record of 11 'BIPRU Remuneration Code Staff' in 2018 – i.e. staff to whom the BIPRU Remuneration Code applied in 2018. BIPRU Remuneration Code. Staff are senior management and members of staff whose actions may have a material impact on a firm's risk profile. All of our Code Staff, including heads of support and control functions, fall into the "senior management" category of Code Staff (rather than the "risk-taker" category) for the purposes of the BIPRU Remuneration Code.

5.2 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, and presented to the Board of Directors of J & E Davy Holdings for adoption. The Directors of J & E Davy (UK) Limited are 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, including the BIPRU Remuneration Code.

5.3 Link between pay & 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. 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. At the discretion of the Board of J & E Davy Holdings, certain staff may be offered the opportunity to use part or all of their award (after payment through payroll) to purchase equity in the parent company.

When assessing individual performance, we use a robust performance review process, and a range of qualitative and quantitative criteria are applied. Variable remuneration may be withdrawn or considerably reduced in the event of subdued or

negative financial performance of the firm or the Group as a whole.

5.4 Quantitative information on remuneration

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff.

The Firm only has one business area - investment management (advisory, discretionary and execution-only).

In 2018, the Firm had 4 Executive Directors, 2 Non-executive Directors and 5 other Senior Managers, but no "risk-takers". Board meetings are chaired by a Non-executive Director.

Directors' remuneration is set by J & E Davy Holdings, taking advice from its Remuneration Committee; and 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.

The aggregate quantitative remuneration for our firm's BIPRU Remuneration Code Staff is as follows:

Business Area	Total Remuneration for the year ended 2018
Investment Management	£1,290,351

6. Conclusion

J & E Davy (UK) Limited is a well-managed business with a liquid balance sheet and surplus capital.

Preparation of the ICAAP has provided an opportunity to reassess the inherent risks of the business, recalibrate our Capital Adequacy under Pillar 2 to reflect the impact business areas, and capture and assess new or emerging risks and growing risks such as cyber related risks and potential data breaches.

On an overall basis, the Pillar 1 (£2.2m) requirement is higher than the Pillar 2 requirement (£1.2m) and we conclude, based on the ICAAP, that the Company continues to hold a level of regulatory capital that is more than adequate in the context of the current and future planned business requirements.

J & E Davy (UK) Limited and J & E Davy are part of the Davy Group of companies. Davy Private Clients UK and Davy 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, reference number 172140. J & E Davy (UK) Limited is incorporated and registered with Companies House in Northern Ireland under number NI028952. The registered office is 7 Donegall Square North, Belfast BT1 5GB. The VAT number is 911 7020 68.

J & E Davy, trading as Davy, is regulated by the Central Bank of Ireland. Davy is a member of Euronext Dublin and the London Stock Exchange. In the UK, Davy is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of Davy's authorisation and regulation by the Financial Conduct Authority are available from us on request. The Central Bank of Ireland reference number is C775 and the Financial Conduct Authority reference number is 211884. Davy is registered in Ireland with the Companies Registration Office under number 106680. The registered office is 49 Dawson Street, Dublin 2. The UK Branch registration number is NF004182. The VAT number is 240 8726 09.