J&E Davy Holdings - **Pillar 3 disclosures**

1. Introduction/Overview

Background
The European Union (EU) Capital requirements Directive (CRD) was adopted by the EU on 14 June 2006 and became effective in Ireland on 1 January 2007. The CRD applies to all investment firms authorised under the Investment Intermediaries Act, 1995 and the European Communities (Market in Financial Instruments) Regulations 2007.

In Ireland, the implementation of the CRD required regulated firms to make significant changes to the way they calculate their capital requirements including the application of the concepts of minimum capital requirements (Pillar 1) and the internal capital adequacy assessment process (Pillar 2) in the determination of those requirements.

Pillar 1 sets out the methodology for calculating a firm's minimum regulatory capital. Pillar 2 requires a firm to assess their own risks and determine if sufficient capital is in place to cover these risks including specific risks not captured under Pillar 1. This process is known as the Internal Capital Adequacy Assessment Process (ICAAP) and provides a link between the risk profile of a firm and the capital it holds against these risks.

The disclosure requirements of Pillar 3 complement the capital requirements described in Pillar 1 and Pillar 2 and seek to promote greater market discipline and transparency through the disclosure of key information about risk exposures and risk management processes.

The regulated entities within the J&E Davy Holdings Group adopted the provisions of the CRD on 1 January 2008.

Structure & Scope
The disclosures made in this document are in respect of the J&E Davy Holdings Group of Companies ("the Group") and are made on a fully consolidated basis. The J&E Davy Holdings Group is subject to consolidated supervision by the Central Bank of Ireland.

The following Companies are wholly owned subsidiaries of J&E Davy Holdings and are regulated by the Central Bank and subject to the provisions of the CRD: J&E Davy, Davy Corporate Finance, Davy Securities, Davy Asset Management Limited, Davy Fund Managers, Advance Fund Management Limited, Davy Investment Fund Services and iCubed Training, Research and Consulting. All the above entities are incorporated and are resident in Ireland.

The following Pillar 3 disclosures have been prepared as at 31 December 2014, which is the year end date for all Group Companies.

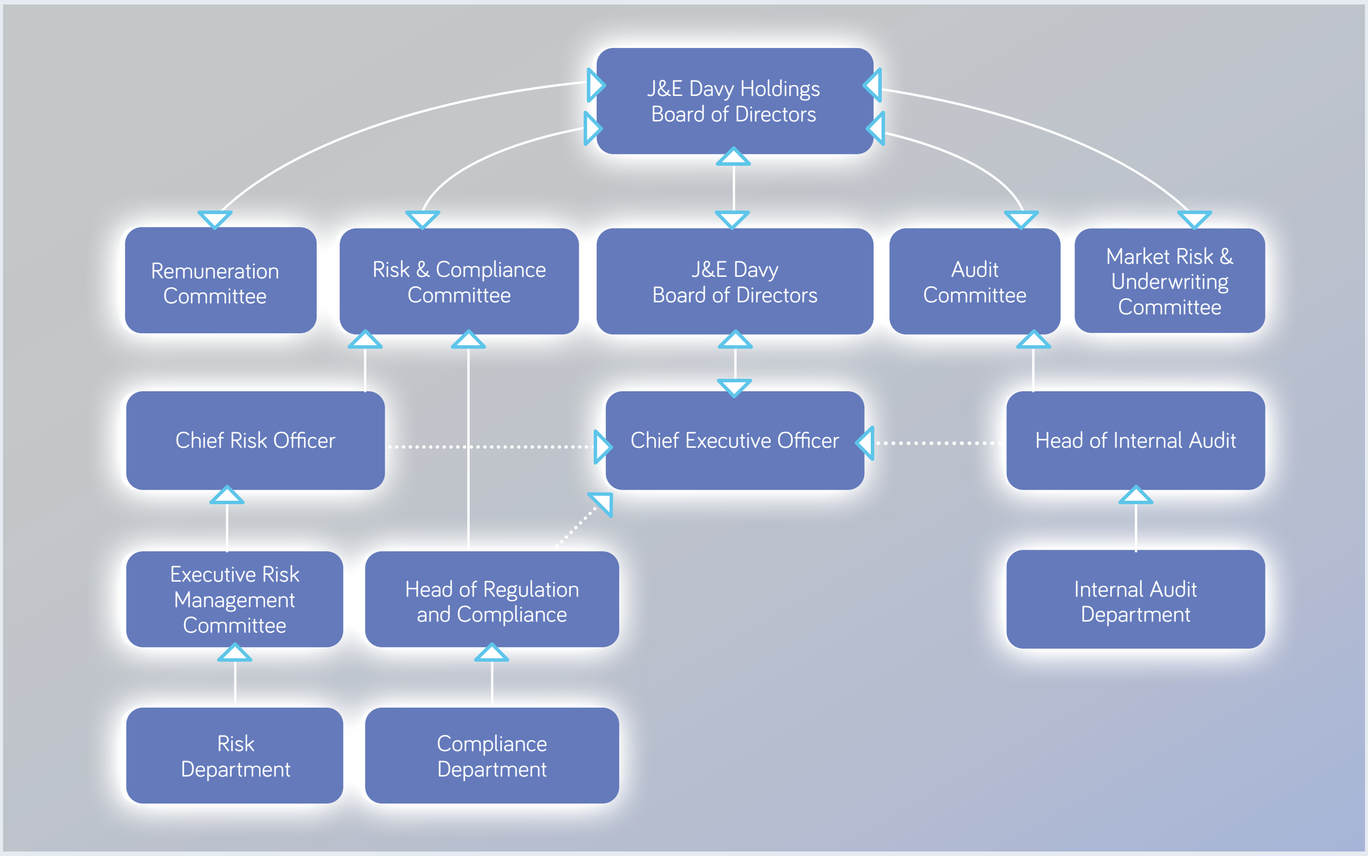
Frequency, location and verification of disclosures
The Board of Directors of J&E Davy Holdings believes that the Pillar 3 disclosures should be made annually, unless there has been a material change in the approaches or permissions used to calculate regulatory capital since the most recent disclosures. The Board believes that the publication of these disclosures on the Davy website (www.davy.ie) is the most appropriate medium.

These disclosures are approved by the Board.

2. Risk management objectives and policies

The Board of Directors of J&E Davy Holdings is ultimately responsible for the management of the Company including the setting of risk management policies.

The Board, the membership of which includes Non-Executive Directors, meets on 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 as described overleaf:



Audit Committee
The Audit Committee meets at least twice a year with additional meetings as required. The primary responsibility of the Audit Committee is to assist the Board in fulfilling its responsibilities for ensuring proper accounting and financial reporting practices and proper internal controls. In addition the Audit Committee meets to discuss the external audit plan and results with the Group's auditors.

Internal Audit Department
The Board has established the Internal Audit department through the Audit Committee's oversight function as an independent, objective assurance service. It helps the Group accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.

The Head of Internal Audit reports to the Chairman of the Audit Committee and, on an administrative basis, to the Chief Executive.

The scope and responsibilities of Internal Audit are to review, analyse, appraise, recommend improvements and report on:

(a) the adequacy, effectiveness and operation of the Group's systems of financial, operational and management control;
(b) the extent of compliance with policies and procedures established by the Group;
(c) the extent to which Group assets and interests are accounted for properly and safeguarded from losses;
(d) the suitability, accuracy, reliability, integrity and timeliness of financial and other management information and the means used to identify, measure, classify and report such information;
(e) the suitability, reliability and integrity of processes and information systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds;
(f) the follow-up action taken to remedy weaknesses identified by an Internal Audit review, ensuring that good practice is identified and communicated widely;
(g) the operation of the Group's corporate governance arrangements.

Risk & Compliance Committee
The Risk & Compliance Committee meets as often as is required to undertake its role effectively, but not less than quarterly.

The key responsibilities of the Risk & Compliance Committee are to:

- Review and approve the group's regulatory risk and compliance policies and frameworks;
- Assess the regulatory risks of the group and evaluate the effectiveness of the Group's systems, controls and reporting arrangements to monitor and manage risks that are significant to the fulfilment of the Group's business objectives;
- Oversee the adequacy of practices and procedures in respect to compliance with applicable laws, regulations and codes of practice/regulatory guidance notes, and of actual compliance with same (other than the financial reporting obligations for which the Audit Committee is responsible);
- Ensure that sufficient and appropriate competent resources are dedicated to managing compliance and risk management processes;
- Continue to manage and to maintain the Group's good standing with the firm's regulators;
- Monitor and assess the role of and effectiveness of the Regulatory & Compliance & Risk functions;
- Review and approve the annual Compliance Plan including the Compliance Monitoring Plan;
- Review and approve the scope and approach to Risk Management;
- Review, assess and challenge the appropriateness, adequacy and effectiveness of management's proposed action plans in addressing and reducing risk; and
- Review findings of any examination or non-routine enquiries by regulatory authorities, and agree actions if so required.

Compliance Department
The Board has established the Compliance department through the Risk & Compliance Committee's oversight function to assist the Group in meeting its objectives by ensuring that it is :-

(i) complying with legal, regulatory and other requirements and observing best market practice; and

(ii) acting honestly, fairly and reasonably in all dealings with clients, suppliers, employees, Government and regulators.

The Head of Regulation and Compliance reports to the Chairman of the Risk & Compliance Committee, and on an administrative basis, to the Chief Executive.

Risk Department
The Chief Risk Officer reports directly to the Risk & Compliance Committee of the Board (see above), and also chairs the executive risk management committee. The risk-office is responsible for the Davy Group risk management framework, which includes the identification, classification and monitoring of the primary risks that the Group is potentially exposed to. The framework also includes the continuous development of key-risk indicators, focused risk-mitigation plans and the Group's risk appetite statement.

Market Risk & Underwriting Committee
The Market Risk and Underwriting Committee oversees and approves all underwriting activity within the group and also oversees Bond and Equity Trading activity within Davy, which is governed by the Market Risk Policy.

Remuneration Committee
The key responsibilities of the Remuneration Committee are to monitor the remuneration policy and practices in the Group and to ensure good governance process, effective risk management principles and the long term interests of stakeholders prevail. The committee takes input, advice and guidance from the Head of Human Resources and the Head of Regulation and Compliance as required.

Board Reporting
The various board Sub Committees, through their respective Chairmen, report to the Board of J&E Davy Holdings. Reports will cover any matters that in the opinion of each Committee should be brought to the attention of the Board and any recommendations requiring Board approval and/or action. Minutes are kept of all Sub Committee meetings and circulated to the Board.

3. Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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. Operational risks may arise from all the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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 executive Risk Management Committee and the development of overall Group standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- Staffing – Davy's policy is to recruit and retain experienced and qualified personnel to key areas. The training and development policy ensures all staff receives training and professional updates that are relevant to their role or the area they operate in;
- 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, and
- Business continuity and disaster planning.

Compliance with Group standards is supported by a programme of ongoing review by senior management, supported by the executive risk management committee, the risk department, Internal audit and independent control functions within the group (Compliance/Finance). The executive risk management committee comprises representatives of the Senior Management from each of the main business areas and is chaired by the Chief Risk Officer. The Internal Audit Department provides independent assurance that risk is managed in accordance with this policy and there is a structure in place to facilitate reporting to the Audit Committee in this regard.

4. Market Risk

Market risk is defined as the potential for adverse change in assets or liabilities arising from movements in stock/bond prices, currency exchange rates and interest rates:

Market price risk (Trading Book)
This is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

Senior management are responsible for establishing the Group's overall risk appetite and for establishing and monitoring the Group's market risk management policies and procedures subject to the approval of the Board. Risk is actively managed by the business within these policies and within the market risk policy statement.

The market risk policy statement, which has been approved by the Board, 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 and risk reporting requirements.

The principal tool used to measure risk and control market risk exposure within the Group's listed Equity/Bond trading portfolios is Value at Risk (VAR). The VAR methodology is used industry wide to estimate, based on certain assumptions, the maximum likely loss, in market value terms, for existing risk positions. The Equity/Bond VAR of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified probability (confidence level). The Equity VAR model used by the Group is based on 97.5% confidence level (Bond VAR based on 97% confidence level) and both models assume a one day holding period. The Equity VAR model used is based mainly on historical simulation and takes account of the market data from the previous 6 months (Bond VAR takes market data from the previous 12 months).

The VAR calculations are performed daily by the Finance department, which is independent of the trading function and are distributed to selected senior management including the CEO.

Currency risk
This is the risk that the value of assets and liabilities denominated in a foreign currency will fluctuate due to adverse movements in exchange rates. The Group 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, either on behalf of customers or on the Group's own account. Consequently, the Group is exposed to risks

that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the euro where no currency hedging transactions have been entered into.

Procedures are in place to ensure that all exposures arising in this regard are actively monitored and significant risks are mitigated through the use of foreign exchange forward contracts where appropriate.

Interest rate risk (Non trading Book)
This is the risk that future cash flows of floating rate financial assets will decrease due to changes in market interest rates or the market value of these assets will decrease due to changes in market interest rates. The majority of the Group's non trading book financial assets (excluding cash and government/fixed interest securities) are non-interest-bearing and therefore are not subject to interest rate risk. The Group's interest bearing financial assets mainly comprises of assets with a term to maturity of no longer than 3 months. Therefore the Group has very limited exposure to movements in interest rates and interest rate risk is not considered a significant risk to the Group.

5. 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.

The Group's assets which are subject to credit risk mainly comprise of trade receivables, cash balances held with banks and government/fixed interest securities.

Trade receivables/Client credit risk
As institutional balances are generally settled in CREST on a delivery versus payment basis (DVP) within a two day settlement cycle, there is no significant credit risk associated with these balances.
The Group has policies and procedures in place to ensure that institutional counterparties are of appropriate credit worthiness and that limits are set and monitored to restrict the exposure to potential losses (replacement risk) where trades do not settle.
The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers mainly within the financial services sector.

In relation to its Private Client business the Group does not consider that, given the breadth of its client list and the volume of their trades, there is a risk of client default that would be material in the context of the overall business. In addition, Private Client receivables are managed and controlled using well defined policies and procedures, which are independently managed and reviewed, within the Finance department.

Deposits and fixed interest securities
The Group manages its credit risk in respect of bank deposits by placing funds with financial institutions that are of systemic importance. These exposures are monitored on a daily basis.

Credit risk arising on debt instruments held for trading is mitigated by investing in rated instruments with credit ratings assigned by external credit assessment institutions (ECAI's).

6. Liquidity Risk

Liquidity risk is the risk that the ability to meet payment obligations cannot be achieved at all times. The Group is not reliant on borrowings to fund its operations. The business generates strong cash flows and the balance sheet is highly liquid. The net current assets of J&E Davy Holdings at 31 December 2014 amounted to circa €127m. The liquidity position of the Group is monitored on a daily basis and management information on liquidity is provided on a regular basis to Senior Management.

In the opinion of the directors, the Group has sufficient funds available to meet all operational requirements, future operations and stated strategies.

7. Regulatory Capital Resources

As at 31 December 2014 and at all times throughout the year, J&E Davy Holdings and all regulated entities within the Davy Group complied with the regulatory capital requirements of the Central Bank.

The table below details the composition of the regulatory capital resources of J&E Davy Holdings available to meet these requirements as at 31 December 2014:

Capital resources	**Note**	**As at 31 December 2014 €000**
Called up share capital	1	2,335
Share premium	1	17,621
Revenue Reserves as per 2014 Financial Statements	1	148,081
Deductions from capital resources	2	(25,607)
Total regulatory capital resources		142,430

Notes:

1: Total capital resources comprise share capital, share premium and audited retained earnings as per the 2014 audited financial statements of J&E Davy Holdings.

2: A deduction is made in respect of goodwill and software development costs. These are classified as intangible assets and do not qualify for regulatory capital purposes.
In addition, CRD IV which became effective from 1 January 2014 resulted in certain items being no longer eligible as regulatory capital.

8. Capital Adequacy

The Group's capital management objectives are as follows:

- To comply at all times with the capital requirements of the Central Bank.
- 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 and Regulatory Reporting function. Daily reports are produced to monitor regulatory capital and forecasts are distributed to the Board and senior management on a regular basis.

At 31 December 2014, the total consolidated capital requirement of J&E Davy Holdings under Pillar 1 amounted to €44.49M and was over 3 times covered by the Capital Resources available at that date. Each of the component parts of the total requirement of €44.49M (being settlement/counterparty credit risk, position risk, non trading book and operational risk requirements) are described in more detail below.

Settlement/counterparty credit risk

The Group has adopted the standardized approach under the CRD to calculate the capital requirements for settlement/counterparty credit risk. Under the standardized approach the Group calculates the capital risk requirement as 8% of the total risk weighted exposure.
Settlement risk arises when a trade fails to settle on due settlement date leaving the Group exposed to the difference between the agreed settlement price and the current market value where the difference could involve a loss to the Group. The risk is calculated by multiplying this difference by an appropriate factor dependent on the number of days past due settlement date. As generally all institutional trades are settled on a delivery versus payment (DVP) basis, settlement risk mainly applies to a limited number of private client trades which are past due settlement date.

The trading book counterparty base of the Group is predominantly investment banks, credit institutions, investment firms and fund managers. The Group uses ECAI's for the purpose of calculating risk weighted exposure amounts in accordance with the standardized approach to credit risk. As mentioned above, institutional trades are settled on a delivery versus payment (DVP) basis and therefore exposure to counterparty credit risk is limited. In addition, the Group 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.

Position risk/Market price risk (Bonds and Equities)
The Group's policies and procedures for managing position or market price risk are referred to in section 4 above.

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

The Group calculates both specific and general capital risk requirements on bond positions in accordance with the CRD. General interest rate risk on bonds is calculated using the maturity based approach, which is based on the profile of bond holdings (long v short) and the maturity of these bonds. The calculation of specific risk is dependent on the maturity profile of the bond, the type of issuer (e.g. central government or institutions) and the credit worthiness of the issuer as determined by external credit assessment institutions (ECAI).

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

Operational risk
The Group has adopted the Basic indicator approach (BIA) to calculate the Operational Risk requirement under the CRD. The basic indicator approach is calculated by taking 15% of the three year average of Net Income.

9. Capital adequacy and ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is the process through which the Group's Board is informed of the ongoing assessment of the risks which the Group is exposed to, how those risks are mitigated against and how much capital is necessary having made this assessment. The ICAAP is a key component of the Group's implementation of the Capital Requirements Directive (CRD).

The Group has always had a robust risk management culture (prior to the ICAAP) by ensuring key departments are sufficiently resourced with experienced staff (e.g Risk, Compliance, Internal Audit and Finance) and that there are stringent risk management policies and procedures in place to identify, monitor and mitigate risks. The Board continues to play a pivotal role in the development of this culture, which is the bedrock of the ICAAP. No aspect of the Group's business is outside the scope of the ICAAP exercise and the locally owned and "hands on" involvement of executive directors in the development of risk management processes means that the Board has played a key role in the risk assessment and identification side of the ICAAP.

The ICAAP is reviewed by the Board on an ongoing basis. Risk management is an ongoing and "live process" and the ICAAP review complements the risk monitoring and reporting that takes places within the Group on an ongoing basis, including Board reporting around same.

As noted above, at 31 December 2014, the consolidated capital requirement of the Group was over 3 times covered by the capital resources at that date. The Group's ICAAP did not identify any further capital requirements under Pillar 2.