J & E Davy Holdings – **Pillar 3 Disclosures**

Davy House, 49 Dawson Street, Dublin 2.

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 Union (Markets in Financial Instruments) Regulations 2017.

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.

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 of Ireland: J & E Davy, Davy Corporate Finance, Davy Securities, Davy Asset Management Limited, Davy Fund Managers, Advance Fund Management Limited, Davy Investment Fund Services Limited and iCubed Training, Research and Consulting. All the above entities are incorporated and are resident in Ireland.

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.

The following Pillar 3 disclosures have been prepared as at 30 December 2018, which is the accounting period end date for all Group Companies.

J & E Davy and Davy Asset Management Limited are subject to the Client Asset Regulations. J & E Davy, Davy Asset Management Limited and Davy Corporate Finance are also subject to the provisions of CRD.

J & E Davy Holdings, the holding company for the J & E Davy Group, is wholly owned by Davy management and staff. The largest trading entity in the Group ("J & E Davy") is a wholly-owned subsidiary of J & E Davy Holdings and trades as Davy.

Frequency, Location and Verification of Disclosures

The Board of Directors 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.

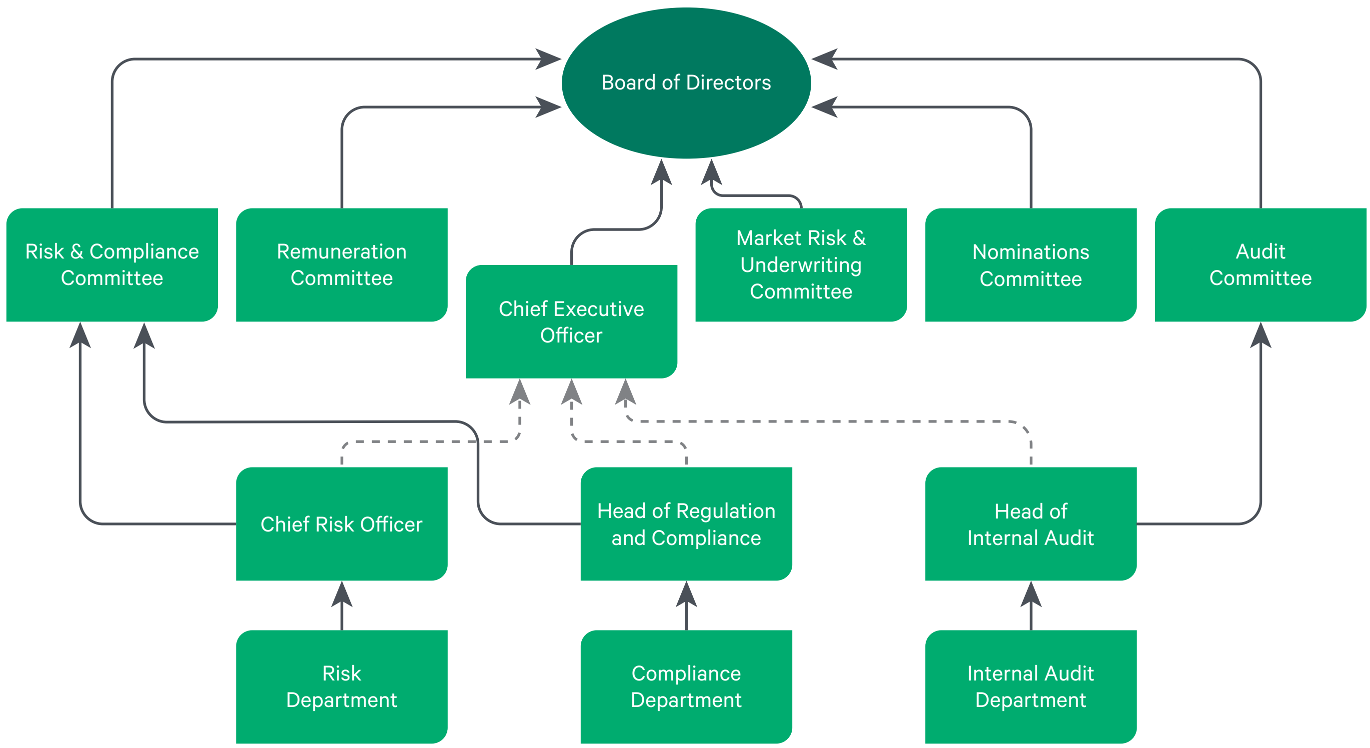
These disclosures are approved by the Board of Directors.

It's not just business. **It's personal.**

2. Risk management objectives and policies

The Board of Directors is ultimately responsible for the management of the Group including the setting of risk management policies within the board approved Risk Appetite Statement.

The Board, the membership of which includes a majority of Independent 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 below:



Audit Committee

The Audit Committee normally meets three times a year, with additional meetings as required and is comprised of two Independent Non-Executive Directors, one of whom chairs the Committee, and one executive director. 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 findings 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 Chair 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 Risk & Compliance Committee consists of two Independent Non-Executive Directors of J & E Davy Holdings, one of whom chairs the Risk & Compliance Committee, and one Executive Director.

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 of 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 and 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 Chair of the Risk & Compliance Committee, and on an administrative basis, to the Chief Executive.

Risk Department

The Chief Risk Officer (CRO) reports to the Chair of the Risk & Compliance Committee and on an administrative basis to the Chief Executive. 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 Chief Risk Officer also Chairs the Executive Risk Management Committee which considers all individual risks in the context of the Group's risk management methodology. The framework also includes the development of key-risk indicators and the Group's risk appetite statement.

The Chief Risk Officer has responsibility for client assets in the role of Head of Client Asset Oversight (HCAO). The Board considers the protection, segregation and oversight of client assets to be a fundamental priority for the Group and has approved the Group's Client Asset Management Plan (CAMP) to ensure there are appropriate systems and controls in place to safeguard client assets.

Market Risk and Underwriting Committee

The Market Risk and Underwriting Committee oversees and approves all underwriting activity within Davy and also oversees Bond and Equity Trading activity within Davy, which is governed by the Market Risk Policy. The Committee is comprised of the Chief Executive Officer, Head of Capital Markets, Head of Equities/Bonds (as required) and the Chief Financial Officer. The Chief Risk Officer is secretary of the Committee.

Remuneration Committee

The key responsibilities of the Remuneration Committee are to monitor the remuneration policy and practices of the Group and to ensure good governance processes around remuneration and compliance with statutory obligations and relevant regulatory guidance and that effective risk management principles and the long-term interests of stakeholders prevail. The Committee is comprised of two Independent Non-Executive Directors and one Executive Director. The committee takes input, advice and guidance from the Head of Human Resources and the Head of Regulation and Compliance as required.

Nominations Committee

The Nominations Committee meets at least twice a year or more frequently as required. The Committee shall regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and membership of board sub committees in consultation with the chairperson of those committees, succession planning for directors and making recommendations to the Board with regard to any changes. The Committee is comprised of two Independent Non- Executive Directors and one Executive Director.

Board Reporting

The various board Sub Committees, through their respective Chairperson, report to the Board of Directors. 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, 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;
- Business continuity and disaster planning; and
- Information security including cyber related risk.

Compliance with Group standards is supported by a programme of ongoing review by Senior Management supported by the Executive Risk Committee, the Risk Department, Internal Audit and other independent control functions within the group (for example Compliance & Finance). The Executive Risk Management Committee comprises representatives of 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 Group 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 the value of financial instruments 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.

The Group's market risk management policies and procedures are subject to the review and the approval of the Market Risk and Underwriting Committee within the framework of the Risk Appetite Statement approved by 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.

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) by reference to relevant historical data simulation and market standards.

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 Chief Executive Officer.

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 three months. Therefore the Group has 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 significant risk of client default that would be material in the context of its Private Client 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 credit institutions regulated by the Central Bank of Ireland. These exposures are monitored on a daily basis.

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

6. Liquidity risk

Liquidity risk is the risk that the ability to meet payment obligations cannot be achieved by the Group 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 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.

7. Regulatory capital resources

As at 30 December 2018 and at all times throughout the period, J & E Davy Holdings and all regulated entities within the Davy Group complied with the regulatory capital requirements of the Central Bank of Ireland.

The table below details the composition of the regulatory capital resources of J & E Davy Holdings available to meet these requirements as at 30 December 2018:

Capital resources	Note	As at 30 December 2018
Tier 1 Capital		**(€m)**
Called up share capital presented as equity	1	3
Share premium account	1	33
Retained earnings and other reserves	1	123
Deductions from capital resources	2	(22)
Total Capital Resources		**137**

Notes:
1. Total capital resources comprise share capital, share premium and audited retained earnings as per the 2018 audited financial statements of J & E Davy Holdings.
2. A deduction is made in respect of intangible assets and software development costs which do not qualify for regulatory capital purposes.

8. Capital adequacy

The Group's capital management objectives are as follows:

- To comply at all times with the regulatory capital requirements of the Central Bank of Ireland.
- 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.

At 30 December 2018, the total consolidated capital requirement of J & E Davy Holdings under Pillar 1 amounted to €36.7M and was over 3.5 times covered by the Capital Resources available at that date. Each of the component parts of the Pillar 1 capital requirement (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 standardised approach under the CRD to calculate the capital requirements for settlement/counterparty credit risk. Under the standardised 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 the vast majority of 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 ECAIs for the purpose of calculating risk weighted exposure amounts in accordance with the standardised 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.

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 ECAIs.

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-book debtor balances. The non-trading book requirement is using the standardised 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 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 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 ICAAP is reviewed by the Board on an ongoing basis. Risk management in Davy 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 30 December 2018, the consolidated Pillar 1 regulatory capital requirement of the Group was over 3.5 times covered by the trading calculated capital resources at that date. The Group's ICAAP did not identify any further capital requirements under its Pillar 2 process.