



Tilney

Pillar 3 disclosures

Covering:

Tilney Investment Management Services Limited (TIMS)

Tilney Investment Management (TIM)

Tilney Discretionary Portfolio Management Limited (TDPML)

Tilney Discretionary Investment Management Limited (TDIM)

Tilney Asset Management Services Limited (TAMSL)

Tilney Asset Management Limited (TAM)

As at 31 December 2019

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1 Background and Overview (Article 431 – 434)

The Capital Requirements Directive ('CRD') of the European Union created a revised regulatory capital framework (known as CRD IV) across Europe governing how much capital credit institutions and investment firms must retain. The CRD IV legislation consists of the Capital Requirements Directive (Directive 2013/36/EU, 'the Directive') and the Capital Requirements Regulations (Regulation (EU) No. 575/2013, 'the Regulations').

In the United Kingdom the Directive has been implemented by Tilney Limited and its in-scope regulated entities' (variously 'Tilney', 'we', 'us' or 'our') regulator, the FCA, which has created rules and guidance specifically in the Prudential Sourcebook for Investment Firms ('IFPRU'), Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') and The Interim Prudential Sourcebook for Investment Business ("IPRU (INV)").

The CRD IV framework is based on three 'pillars':

- Pillar 1 sets out the minimal capital requirements that we are required to hold.
- Pillar 2 requires us, and the FCA, to take a view on whether we need to hold additional capital against firm-specific risks not covered by Pillar 1. These are the Internal Capital Adequacy Assessment Process ('ICAAP') and the regulator's Supervisory Review and Evaluation Process ('SREP') of our ICAAP.
- Pillar 3 requires us to publish a set of disclosures which will allow market participants to assess key information about our underlying risks, risk management controls and capital position.

The Pillar 1 and Pillar 2 assessments are both documented within our annual ICAAP report.

This Pillar 3 disclosure is published in accordance with the Capital Requirements Regulation (CRR) and is directly binding on 'in-scope' firms. The rules in BIPRU 11 also set out the provision for Pillar 3 disclosure for BIPRU firms.

The Pillar 3 disclosure requirements complement the minimum capital requirements ("Pillar 1") and the supervisory review process ("Pillar 2") and aim to encourage market discipline by allowing market participants to assess key pieces of information on the risk exposures and the risk assessment processes of Tilney.

1.1 Scope and Application of Directive Requirements

The following Tilney entities are covered by this disclosure.

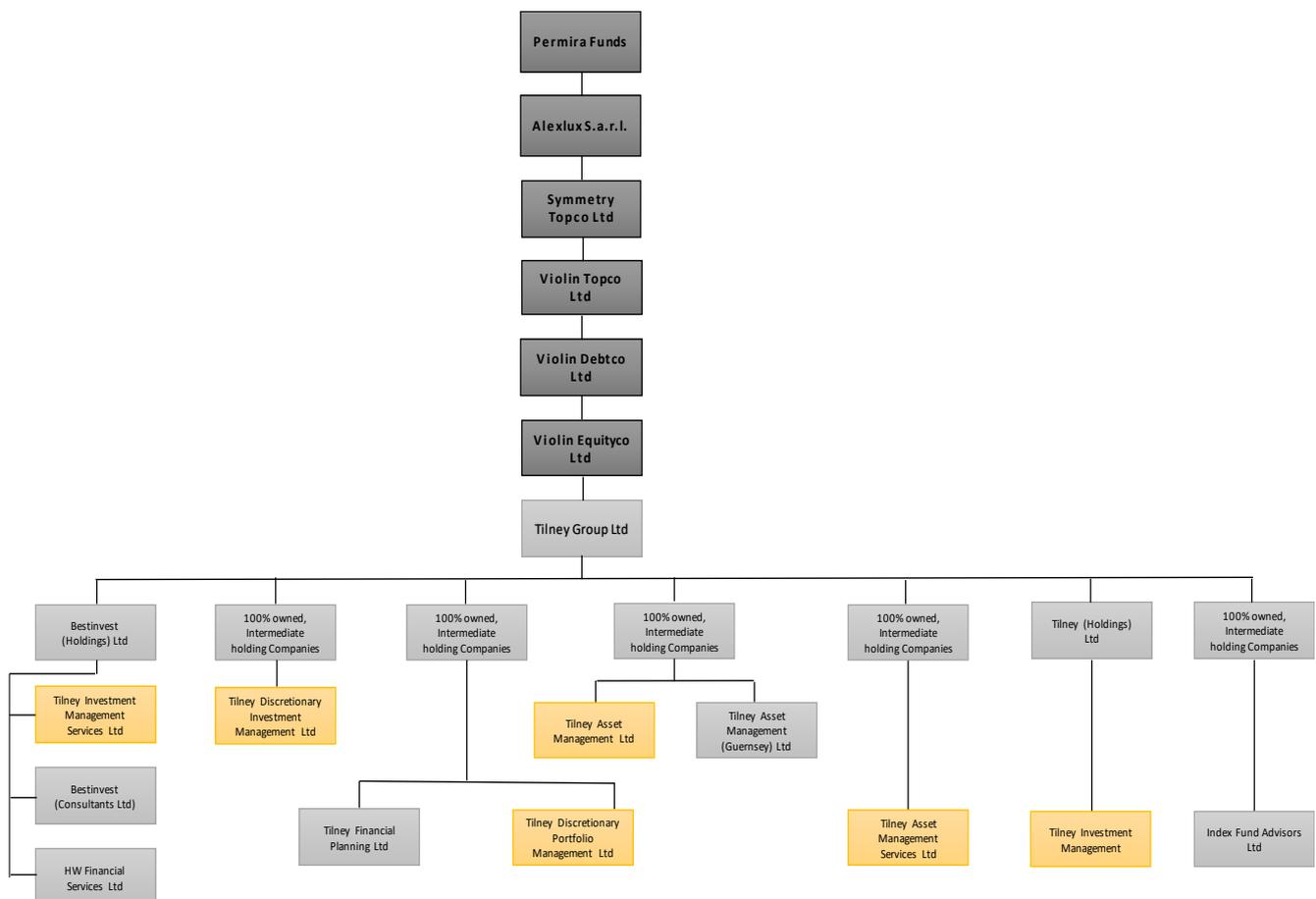
Name	Abbreviation & FCA No.	Prudential Reg status	Division(s)	Activities
Tilney Investment Management Services Limited	TIMS 165169	IFPRU limited licence (IFPRU €50k)	Investment Management Direct/Bestinvest	Discretionary, Advisory, and Self Directed Investment Management services for retail investors.
Tilney Investment Management	TIM 124255	IFPRU €125k	Investment Management	Investment management services including bespoke discretionary portfolios, model portfolios & non-discretionary managed services. Income is through annual account fees.
Tilney Discretionary Portfolio Management Ltd	TDPML 142989	IFPRU €125k	Investment Management	Discretionary investment management services using model portfolios. Investment advisor to Tilney Umbrella A ICAV. Income is investment management charges, custody fees, & advice fees <i>Assets have been migrated away from this firm as part of a move from a Model A proposition to Model B.</i>
Tilney Asset Management Services Ltd	TAMSL 189997	BIPRU €125K Limited Licence	Investment Management	Investment management services including bespoke discretionary portfolios, model portfolios & non-discretionary managed services. Income is through annual account fees. <i>Assets have been migrated away from this firm as part of a rationalisation of custodians.</i>
Tilney Asset Management Ltd	TAM 223074	BIPRU €50k Limited Licence	Investment Management	Investment management services
Tilney Discretionary Investment Management Ltd	TDIM 147103	BIPRU €125K Limited Licence	Investment Management	Investment management services including bespoke discretionary portfolios and model portfolios. Income is through fees based on a percentage of AUM. <i>Assets are being migrated to this firm from other group entities as above.</i>

1.2 Tilney's Structure

Tilney is a large wealth manager with £26.3 billion of assets under management as at 31 December 2019, of which 76% is managed on a discretionary basis. The Group has over 100,000 clients and provides propositions that range from an on-line execution only investment platform, through to discretionary management of portfolios for ultra-high net worth clients, and provides a high quality financial planning and advisory service.

Tilney is private equity owned, with Permira funds holding a majority stake in the business through a number of intermediate holding companies.

A summarised group structure is included below, showing the key entities, with those covered by the ICAAP shaded gold: this chart shows the position as at the date of approval of this report, and hence reflects changes to the structure that have occurred during 2020.



The Group is predominantly UK based, with nearly 99% of turnover generated from UK companies. The only significant activity outside the UK relates to a Guernsey based investment management firm, which is registered with the Guernsey Financial Services Commission.

In September 2019, the Group announced plans to combine with Smith & Williamson. Whilst it is anticipated that the transaction will proceed, work remains ongoing at the date of this report, and regulatory approval has not been received. Therefore, the Pillar 3 disclosure is focused solely on the existing Tilney Group, and the levels of capital required by the individual investment firms within it. If the Smith & Williamson transaction completes as anticipated, a new Pillar 3 disclosure document will be prepared as a matter of priority, covering the enlarged group.

1.3 Basis of Disclosures

The group's capital assessment will be informed by Tilney's ICAAP, which is kept under review and subject to formal review at least annually.

These disclosures are made in accordance with the requirements of Articles 431 to 455 of the CRR.

Specifically, these disclosures include Tilney's risk management objectives and policies; the strategies and processes for managing its risks; the structure and organisation of its risk management functions; the scope and nature of its risk reporting and measurement systems; and its policies for mitigating risk.

1.4 Frequency of Publication

These disclosures are produced on an annual basis as a minimum and more frequently, if appropriate. Tilney has a financial reporting date of 31 December and these disclosures reflect the position at 31 December 2019.

1.5 Verification of Disclosure

These disclosures are produced solely for the purposes of satisfying the Pillar 3 requirements, to explain the basis of preparation, disclosure of certain capital requirements and to provide information about the management of certain risks. The disclosures are not subject to audit nor do they constitute any form of audited financial statements.

1.6 Media & Location of Publication

These disclosures are published on Tilney's corporate website <https://www.tilney.co.uk/legal-and-protection/regulatory-information>.

2 Risk Management Objectives and Policies (Article 435)

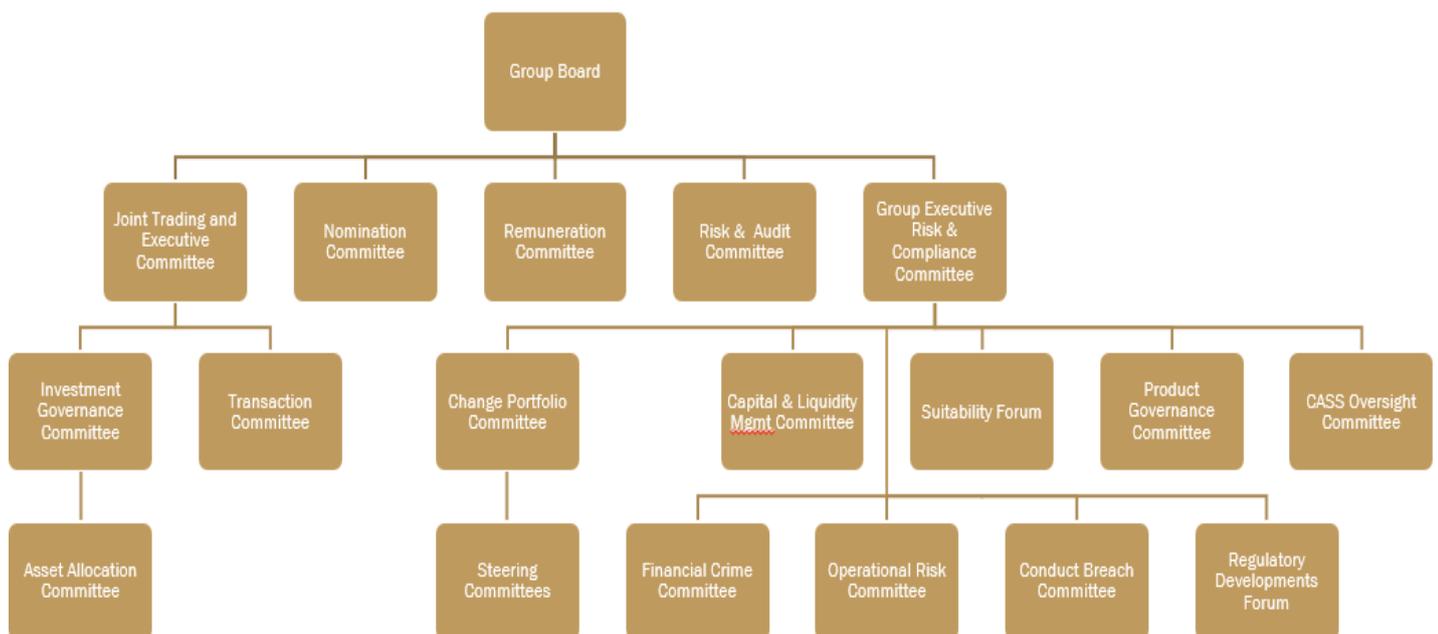
2.1 Governance Arrangements

Risk Management arrangements form part of a strong governance culture, built upon the three line of defence (3LOD) governance model under which primary responsibility for identifying and controlling risks rests with the Group’s businesses (the first line of defence).

Ultimate responsibility for ensuring the adequacy and effectiveness of risk management rests with the Group Board, with quarterly oversight provided by the Risk and Audit Committee (RAC).

Executive management oversight of the Group’s risk exposures is delivered through the Group Risk & Compliance Committee (GRCC) which is supported by underlying committees and for a, covering the aspects identified in structure chart below.

The Key Governance Fora are as below:



2.2 Risk Management Framework

2.2.1 Introduction

The Tilney Enterprise Risk Management Framework (ERMF) forms part of a strong governance culture, built upon the three lines of defence governance model. Its objective is to embed effective risk management processes across the Group which reflect the Board's risk appetite, inform strategic and capital decisions and ongoing discussions around risk appetite, and help management to formulate and prioritise risk mitigation actions.

The objective of the ERMF is to provide clarity in terms of risks, whether they are mitigated against, the strength of the controls and quantification of each.

The framework identifies the key risks faced by Tilney, provides the approach to the identification and assessment of risks and controls, and the process for identifying, reporting and responding to events when risk exposures occur.

In line with the three lines of defence model, primary responsibility for identifying and managing risks rests with business units and their respective Executive who must operate within the risk appetite set by the Board.

The Risk Management process for the Group is reviewed annually in the context of the ICAAP. Despite the fact that Tilney is not subject to consolidated supervision for prudential purposes, Tilney's Board and senior management believe that it is prudent to consolidate the results and consider the risks facing the Group. This ensures that all key risks are considered and the adequacy of capital assessed against these risks. Stress and scenario testing is also undertaken as part of the ICAAP process. The ICAAP report is reviewed and approved annually, firstly by the Group Risk and Audit Committee, and then by the Tilney Board.

The Joint Trading & Executive Committee and the Tilney Board receive monthly reporting from the Chief Financial Officer on the performance of the Group against plans and budgets; this includes reporting on capital adequacy. Monthly reporting is also provided by the Chief Risk Officer (CRO). Where material changes to the business occur, the risk profile of the business is reviewed and consideration is given to whether the capital position remains adequate.

Appropriate action is taken where risks fall outside of the Group's risk appetite or where the need for remedial action is required in respect of any weaknesses identified in relation to mitigating controls.

2.2.2 Scope

The ERMF applies to all entities, business units, functions, outsourced entities, and staff (including contractors) in Tilney.

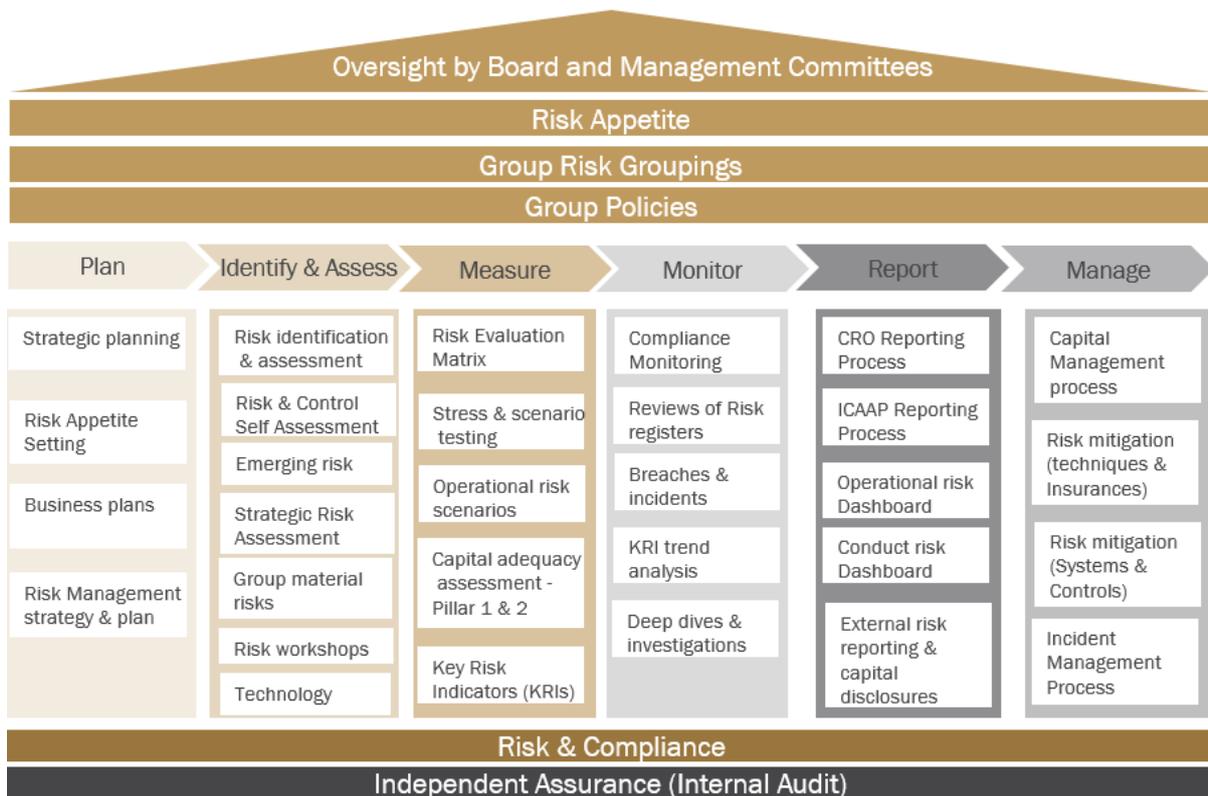
2.2.3 Three Lines of Defence (3LOD)

The Tilney ERMF is managed and governed through the Three Lines of Defence Model (3LOD).

This sets out responsibilities for each line of defence.

The Three Lines of Defence		
1LOD	2LOD	3LOD
Primary risk and control responsibility.	Oversight	Independent assurance
Business Line Management, HR, Finance, IT, Operations & Legal	Risk & Compliance	Internal and External Auditors

2.2.4 Tilney's ERM Framework



2.2.5 Risk Appetite

Risk appetite is the amount and types of risk that the Tilney Board is prepared to accept in pursuit of the Business Plan.

A group risk appetite framework has been developed to reflect Tilney's current strategy and business plans. The risk appetite framework attempts to balance capital efficiency, return on risk and financial soundness in order to protect the interests of our clients, shareholders and staff.

Tilney's Risk Appetite is required to be reviewed on an annual basis.

Further details on Tilney's Risk Appetite can be found in section 2.3.

2.2.6 Tilney's Risk Groupings

Tilney's Risk Groupings form an integral part of Tilney ERMF.

The framework has risks specified at Level 1 (L1), Level 2 (L2) and Level 3 (L3).

In particular risks are assessed and captured under the Risk & Control Self-Assessment (RCSA) process.

The Risk Groupings are also of value in the evaluation and analysis of Risk Events and Incidents. They are also used in the context of product governance and by Group Internal Audit and through Compliance Monitoring.

The risks at the highest level (L1) are:

- Strategic Risk
- Legal & Regulatory Risk
- Business Risk
- Investment Risk
- Financial Risk
- Operational Risk

Conduct Risk is not specified at any category Level 1, 2 or 3 as it is considered that it can be present across many different Risk Groupings and will be assessed as such.

Conduct Risk matters are brought together and reviewed on a regular basis through the Conduct Breach Committee, through review of employee performance across a number of conduct risk measures and behavioural assessments across the year and overseen by the Board and its sub-committees.

Metrics in relation to employee conduct continue to be built out and refined to enable qualitative and quantitative assessments of the relevant risk e.g. Suitability, Whistleblowing both at the entity and employee level to be shared with senior management.

In addition, the Risk and Audit Committee (RAC) receives regular reports that highlight Conduct Risk issues of particular concern. During 2020, this element of reporting will continue to be expanded to provide a more holistic view of the health of Tilney from a Conduct Risk perspective.

2.2.7 Enterprise Risk Culture

Tilney aims to foster a risk aware culture, with staff understanding of individual accountability, throughout the business through the promotion of the following:-

1. A distinct and consistent tone from the top;
2. Clear accountabilities for those managing risk;
3. Prompt sharing and reporting of Enterprise Risk information;
4. Encouraging appropriate levels of conduct and considered risk taking behaviour;
5. Recognition of the importance of knowledge, skill and experience in Enterprise Risk Management;
6. Encouraging members of staff at all levels to make suggestions for improving processes, controls etc;
7. An acceptance of the importance of continuous management of risk, including clear accountability for the ownership of specific risks.

2.2.8 Risk Management Activities and Tools

2.2.8.1 Risk & Control Self-Assessment (RCSA)

All key business units and central functions are required to undertake a full Risk & Control Self-Assessment (RCSA) review and analysis on a semi-annual basis in Q1 and Q3 of each year.

RCSA is a process of identifying, recording and assessing potential risks that the businesses or central functions may be subject to and the controls that are either, or should be, in place to reduce the risks to within agreed risk appetite.

With reference to the Risk Groupings, RCSAs should be performed identifying the top risks relevant to a business unit/function and articulating the manner in which such could arise.

2.2.8.2 Key Indicators

Development of Key Indicators (KIs) by the Group's businesses/functions is considered an important component of the RCSA process to assist effective risk management and tracking of business performance. In particular they can be used to good effect in the RCSA process when considering the likelihood of risks materialising and/or the evaluation of the adequacy and effectiveness of controls.

2.2.8.3 Risk Event Management

A Risk Event is an occurrence that results in a loss, near miss or unexpected gain and results from an inadequacy or failure in process or controls. Risk Events include:

- Potential or actual breaches of regulatory, legal or Tilney policy requirements;
- Errors resulting in an actual or potential loss (incidents).

Risk Event identification and reporting requirements are outlined in the Breaches and Incidents Policy and procedural documents. The key requirements are:

1. All staff have an obligation to report a Risk Event as soon as they become aware that a risk event may have occurred;
2. Risk Events are initially recorded on the Incident Reporting Form (IRF) and loaded onto the Group's Risk Event recording tool, by an authorised user, who is typically the Risk Event Owner;
3. The Risk Event Owner is responsible for making sure that the Risk Event is appropriately recorded and with remediation effected with causal analysis completed in an appropriate and timely way.

Business Units and Functions can analyse their own Risk Events. Risk & Compliance provide oversight to the overall quality of the Risk Event database and provide analysis and challenge through the Operational Risk Committee.

2.2.8.4 Root Cause Analysis

Root cause analysis is undertaken where the reason for the occurrence of an event is not immediately evident. It may require engagement of subject matter experts and facilitated workshops. Root cause analysis performed is clearly documented and held securely for independent review.

Enterprise Risk Management perform deep-dive reviews on significant or complex events in order to assess the failings and recommend enhancements to the control environment.

2.2.8.5 Monitoring and Testing

Compliance Monitoring & Testing is an important part of the ERMF. Monitoring & Testing includes a combination of branch reviews, thematic reviews and ongoing monitoring to ensure that full coverage is provided across all business lines.

Monitoring & Thematic Reviews are agreed annually and created in conjunction with the CRO and other Senior Risk & Compliance Managers. Various pieces of information will feed into the programme including (but not limited too): The FCA business plan, FCA market watch publications, previous thematic review findings, complaints data, the previous year's branch review program and general feedback from various business lines. The plan is approved annually through both the Group Executive Committee and Risk & Audit Committee.

The annual Monitoring and Testing Plan is dynamic; reflective of changes in risk focus and emerging areas of concern (eg. In 2020 Covid-19) that Executives or other members of the Risk & Compliance Team (incl. 2LOD Risk) feel requires independent assurance. This approach aligns to and fits within the overall Compliance Plan each year and aims to ensure diversification from the Internal Audit plan to maximise coverage with the Assurance resource available.

2.2.8.6 Reporting

One important component of the ERMF is to produce meaningful risk reports pertinent for each of the Committees within the Governance structure.

Material issues or events are then escalated for review and discussion at the Group Risk & Compliance Committee, the Executive Committee, Risk and Audit Committee and the Group Board dependent upon their severity. Through discussion, lessons learned can be shared and critical actions such as enhancements to the control environment can be monitored through to completion.

2.3 Risk Appetite

2.3.1 Risk Appetite Overview

Risk Appetite is the amount and types of risk that the Tilney Board is prepared to accept in pursuit of the Business Plan.

A group risk appetite framework has been developed to reflect Tilney’s current strategy. The risk appetite framework attempts to balance capital efficiency, return on risk and financial soundness in order to protect the interests of our clients, shareholders and staff.



The Risk Appetite is established through a number of Risk Appetite Statements (RAS) and these are supported by Key Indicators (KI) to enable effective and timely reporting to the Tilney Board and Executive.

2.3.2 Governance

The RAS are reviewed and approved by the GRCC and Tilney Board (via the RAC) on an annual basis.

All RAS and KIs are owned and reported through the sub committees of the GRCC.

On a periodic basis (typically monthly or quarterly), the sub committees of the GRCC, such as the Operational Risk Committee, are required to report on all Amber and/or Red rated KI metrics; including explanations as to what has triggered the amber or red rating and the specific actions taken or to be taken in order to bring the risk back into appetite.

The GRCC has oversight over and can challenge the quality of the actions to be taken and their timely execution and will escalate any material issues to the RAC.

The RAS and KI data are reported to the RAC on a quarterly basis.

2.3.3 Approach

Tilney’s ERMF sets out the requirement that Risk Appetite is defined considering Tilney’s six ‘Level 1’ risk groupings namely Strategic, Business, Financial, Investment, Legal & Regulatory and Operational.

Under these groupings ‘Strategic Aim’ statements are defined and associated RAS formulated with supporting, evaluative, KIs.

Risk Appetite Statements are required to state whether the Group has ‘No’, ‘Very Low’ or ‘Low’ appetite in all instances.

2.3.4 Monitoring

Challenge and oversight takes place through the monthly GRCC, but is instilled further through 2 line of defence challenge by Enterprise Risk Management. Internal Audit will also take the Risk Appetite Statements into consideration in relevant audits.

2.3.5 Risk Appetite Annual Review

The annual review and approval of the Tilney RAS was completed in May 2020, in accordance with the governance requirements detailed above.

3 Own funds - Capital Resources (Article 437)

All firms within the scope of this report have a 31 December year end, and report on either a quarterly or six monthly basis to the FCA. Presented below is a reconciliation between the audited financial statements for each firm as at 31 December 2019, from which the figures in the table below are extracted, and the own funds of the firm calculated in accordance with regulatory requirements.

All firms deduct intercompany debts in full when calculating regulatory capital resources, either as an illiquid assets deduction in the case of the CRD III firms, or as a deduction from Tier 1 capital for the CRD IV firms.

Capital Resources Position As at 31 December 2019	CRD III			CRD IV		
	Tilney Asset Management £'000	Tilney Asset Management Services £'000	Tilney Discretionary Investment Management £'000	Tilney Discretionary Portfolio Management £'000	Tilney Investment Management £'000	Tilney Investment Management Services £'000
Tier 1 capital:						
Ordinary share capital	1,500	92	12,400	6,000	12,304	1,050
Share premium	-	11,283	21	-	-	-
Capital contribution	-	-	-	-	-	11,489
Audited retained earnings	5,126	(136)	16,330	6,554	5,779	12,154
Total Tier 1 Capital	6,626	11,239	28,751	12,554	18,083	24,693
Deductions from Tier 1:						
Intangible assets	-	-	(4,151)	-	-	(7,817)
Defined benefit pension scheme asset, net of deferred tax	-	-	-	-	(2,332)	-
Net intercompany debts	N/a	N/a	N/a	(10,472)	(7,330)	(2,643)
Tier 1 capital after deductions	6,626	11,239	24,600	2,082	8,421	14,233
Tier 2 capital:						
Subordinated loans	-	1,447	-	-	-	-
Sum of Tier 1 and Tier 2 capital after deductions	6,626	12,686	24,600	2,082	8,421	14,233
Deductions from total capital - illiquid assets:						
Net intercompany debts	(3,250)	(10,971)	(2,678)	N/a	N/a	N/a
Own funds	3,376	1,715	21,922	2,082	8,421	14,233

Own funds are classified according to their quality in terms of permanency and loss absorbency, with Tier 1 capital the highest quality. With the exception of Tilney Asset Management Services, all firms have only Tier 1 capital in issue, which includes ordinary share capital, share premium, audited retained earnings and other reserves. Deductions from Tier 1 capital include intangible assets and defined benefit pension scheme assets.

The only Tier 2 capital held is a subordinated loan made to Tilney Asset Management Services, the majority of which was issued by fellow subsidiary undertakings.

4 Capital Requirement (Article 438)

4.1 Capital Resource Requirements

All firms, whether on a CRD III or CRD IV basis, are required to calculate Pillar 1 capital requirements as the higher of a) the sum of the credit risk and the market risk capital requirements, b) the fixed overheads requirement, and c) the base capital requirement. The firms are not required to calculate or include an operational risk requirement under Pillar 1.

For all firms other than Tilney Asset Management Services Limited, the fixed overhead requirement is significantly higher than the sum of the credit risk and market risk capital requirements, and hence is the basis of the Pillar 1 requirement. Given this, further disclosures in relation to the credit risk capital requirements have not been made on the basis of materiality. The activities of Tilney Asset Management Services Limited are being wound down, with the majority of the assets under management having been transferred to other group entities. As a result, the credit risk and fixed overhead requirements for this firm are relatively small, and it is the base capital requirement of €125,000 that is the highest requirement for this company.

4.2 Capital Adequacy Ratios

The table below shows the capital resources held by each firm compared to the Pillar 1 requirement, along with the total capital ratio as at 31st Dec 2019. Whilst capital ratios are not reported in this way under CRD IV, this presentation is considered to clearly show the capital position of each entity. All firms show a strong capital position, with a surplus in excess of 80% over Pillar 1 requirements.

	CRD III			CRD IV		
	Tilney Asset Management	Tilney Asset Management Services	Tilney Discretionary Investment Management	Tilney Discretionary Portfolio Management	Tilney Investment Management	Tilney Investment Management Services
	£'000	£'000	£'000	£'000	£'000	£'000
Total regulatory capital resources	3,376	1,715	21,922	2,082	8,421	14,233
Total Pillar 1 requirement	1,612	106	11,639	1,069	3,733	7,660
Surplus of total capital	1,764	1,609	10,283	1,013	4,688	6,573
<i>Capital ratio (capital resources / Pillar 1 requirement)</i>	209.4%	1614.2%	188.4%	194.8%	225.6%	185.8%

4.3 Compliance with Pillar 2 requirements

The adequacy of capital to support current and future activities is monitored as part of Tilney's Internal Capital Adequacy Assessment Process ("ICAAP"). This includes the application of stress and scenario testing to the financial position of the investment firms to assess their ability to survive market shocks and severe idiosyncratic events. The required capital levels identified through the ICAAP are referred to as the Pillar 2 requirements. The overall capital requirement for each firm is



then assessed as the higher of its Pillar 1 and Pillar 2 figures. The results are reviewed in the context of the Tilney Board's risk appetite to ensure that a sufficient buffer is maintained in each entity.

The latest ICAAP has been prepared based on audited 31 December 2019 figures, and was approved by the Tilney Board in June 2020. The Tilney Board was able to conclude that Tilney and its regulated subsidiaries have adequate capital for current business needs and to support current business plans, including on a stressed basis and beyond that experienced as a result of Covid-19.

5 Discussion of Approach to Risk Exposures (Article 439 – 449)

As with other wealth management and advisory businesses, risks are inherent in the nature of Tilney’s business and activities. Tilney has clear risk management policies and practices in place to manage each category of risk which are described in further detail below.

5.1 Operational Risk

Operational Risk	
Risk definition	This is the risk of inadequate or failed internal processes, people, systems, and/or external events.
Applicability	<p>Tilney is exposed to material operational risk as a consequence of its core businesses and this risk constitutes the largest risk category.</p> <p>There are several sources of operational risk in relation to execution, delivery and process management; clients, products, regulatory and business practices; internal and external fraud; business disruption and system failures; employment practices and workplace safety; damage to physical assets and general conduct.</p> <p>Operational risk is a significant risk category due to its scale and scope across the business and it therefore receives a high degree of attention and focus from senior management and the Board.</p>
Mitigation	<p>The monthly Group Risk & Compliance Committee (GRCC) oversees the operational performance of Tilney against risk appetite – focusing on the effectiveness of the control environment in mitigating the operational risks inherent within the businesses. A number of sub-committees provide more granular oversight over key areas of risk and report into the GRCC, such as:</p> <ul style="list-style-type: none"> • The Operational Risk Committee provides oversight over the management of the key areas of operational risk across the business including operational risk events and proposed mitigating actions, operational losses, data protection and information security, business continuity and material third party outsource providers; • The Financial Crime Committee provides oversight over risks including money laundering, terrorist financing, market abuse, fraud, bribery and corruption and tax evasion; • The CASS Oversight Committee monitors compliance with the relevant Client Asset/Money rules;

- The Suitability Forum oversees compliance with respect to advice quality;
- The Regulatory Developments Forum reviews regulatory news, rule changes and relevant enforcement action to support Tilney in achieving full compliance with the regulatory standards required;
- The Product Governance committee reviews and approves the design and ongoing delivery of core and new products to ensure they meet clients' objectives;
- Other committees include the Change Portfolio Committee, the Best Execution Committee, the Conduct Breach Committee and the Capital & Liquidity Management Committee.

Appropriate insurance cover is in place and reviewed on an annual basis including in respect of Professional Indemnity, Crime and Directors and Officers liability. Specialist cover is in place in respect of a cyber-related incident.

Tilney calculates an operational risk capital requirement as part of the ICAAP Pillar 2 assessment. This process is built around the development of 'what if' scenarios with the input of subject matter experts across the business as well as using internal and external operational risk data (.e.g. Loss events, RCSA, etc.) to derive the severe, yet plausible loss events for scenarios such as:

- Outsourcing/ 3rd Party Risk;
- Internal/External Fraud (including Cyber Threats);
- Employee Litigation;
- Investment Guideline Breach;
- Suitability of Advice (Conduct);
- Execution Error (e.g. Dealing errors).

The output is reviewed and challenged throughout the ICAAP process from senior management up to, and including, the Board.

Operational risk is mitigated through a variety of measures including:

- Risk and Control Self-Assessment (RCSA);
- Risk Event Management;
- Risk Appetite Statements definition and key indicators (KI) reporting and monitoring;
- Scenario Analysis and Stress-Testing performed as part of the ICAAP.

	<p>These activities and tools allow the firm to identify where processes and controls require improvement, enabling actions to be taken which will improve the effectiveness and robustness of processes and controls and to provide effective reporting for management to understand and manage the existing and emerging operational risks facing Tilney.</p>
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5.2 Pension Obligation Risk

Pension Obligation Risk	
Risk definition	<p>Pension obligation risk is the risk to a firm caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the firm will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.</p>
Applicability	<p>As per GENPRU 1.2.81G for ICAAP submissions the firm should provide the ‘best estimate, calculated in discussion with the scheme’s actuaries or trustees, of the cash that will need to be paid into the scheme in addition to normal contributions over the foreseeable future’.</p> <p>The principal risk relates to poor performance of underlying assets, or adverse changes in the underlying actuarial assumptions, that could lead to the scheme falling into deficit position, requiring contribution to be increased.</p> <p>The DB pension scheme is closed to new members. It has 346 deferred and pensioner members and only 8 active members.</p> <p>As at 31st Dec 2019, the accounting valuation of the scheme’s liabilities was £56.2m, compared to the fair value of the scheme’s assets of £59.0m, representing a surplus of £2.8m. Total benefits of £1.29m were paid in 2019, with contributions into the scheme totalling £0.07m.</p>
Mitigation	<p>In Tilney the assessment of pension risk is based on the scheme actuarial analysis. The actuarial valuation as at 31st Dec 2019 showed a surplus of £2.83m.</p> <p>We have also considered how the position is impacted by periods of market turmoil, based on the position due to COVID-19. The analysis prepared by the scheme’s actuary indicates that the reduction in the value of the scheme’s assets caused by the fall in equity markets is more than offset by the increase in corporate bond yields and reduction in inflation expectations, meaning that the surplus reported at the end of 2019 has not been adversely impacted.</p>

5.3 Interest Rate Risk

Interest Rate Risk	
Risk definition	The risk arising from the movement in interest rates, including any impact on the capital resources of the firm.
Applicability	As at 31st Dec 2019, the Group had £396.8 million of debt from a syndicate of banks and investors. The interest rate is variable, being based on a margin over LIBOR.
Mitigation	There is a hedge in place to mitigate against interest rate fluctuations. This is an interest rate cap that covers approximately two thirds of the debt.

5.4 Credit Risk

Credit Risk	
Risk definition	Credit risk loss from failure of counterparties to meet financial obligations. Credit risk at Tilney is defined as the risk of loss arising from the default of a counterparty. Tilney acts on an agency basis on behalf of its clients and does not take principal positions or trade on a proprietary basis.
Applicability	<p>Credit risk is not a significant risk for Tilney. The main risk is in relation to the failure of a material third party provider such as a custodian.</p> <p>The Firm has identified the following sources of credit and counterparty risks:</p> <ul style="list-style-type: none"> • Cash Deposits: Tilney holds most of its cash deposits with multiple banks. The main ones being RBS, HSBC, NatWest, Lloyds, Barclays and Ulster Bank; • Revenue Debtors: Payments due to be received from debtors. This is mainly in respect of investment management services provided to clients including advisory; • Tilney's revenue is derived predominantly from Tilney funds received from Custodians/Trustees monthly in arrears.
Mitigation	Third parties are subject to oversight by the Operational Risk Committee.

	<ol style="list-style-type: none"> 1. Material outsourcers reported and monitored via the monthly Operational Risk Committee (ORC). 2. Regular service provision meetings with 3rd parties. 3. The performance of material outsource providers is tracked monthly; structured oversight meetings and performance indicators provide engagement and challenge; participation in DR tests.
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5.5 Market Risk

Market Risk	
Risk definition	Market risk is defined as the risk of loss arising from fluctuations in the value of assets or income (including adverse movements in exchange rate). The risk of market movements impacting the value of income and liabilities.
Applicability	<p>Tilney does not have any trading book exposures on its balance sheet and acts on an agency basis on behalf of its clients. Tilney does not take principal positions or trade on a proprietary basis.</p> <p>Tilney's exposure to market risk is therefore only in respect of the following:</p> <ul style="list-style-type: none"> • Seed Capital: Seed capital exposures, which are necessary for launching new funds/ product. Tilney does not place seed capital for trading intent, but for client product facilitation; • Temporary market exposure arising from trading errors.
Mitigation	<p>Market risk is assessed through regular stress testing by the Chief Investment Officer (CIO), the results of which are reviewed by the monthly Investment Governance Committee.</p> <p>The potential impact of severe macro-economic scenarios on capital is assessed as part of the ICAAP to ensure that capital is adequate to withstand such events.</p>

5.6 Liquidity Risk

Liquidity Risk	
Risk definition	This is the risk that Tilney may not be able to meet its payment obligations as they fall due. These are largely related to employee salaries, bonuses and service suppliers.

<p>Applicability</p>	<p>The overall liquidity adequacy rule in BIPRU 12.2.1 is that each firm “must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due”.</p> <p>BIPRU 12 requires that firms have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor liquidity risk over an appropriate set of time horizons, including intra-day and those arising from off-balance sheet activities, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines, currencies, and legal entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks (BIPRU 12.3.4 R and 12.3.6 E).</p> <p>In particular, the rules also require that the Board:</p> <ul style="list-style-type: none"> • Establishes Tilney’s liquidity risk tolerance (BIPRU 12.3.8 R), • Approves Tilney’s strategies, policies, processes and systems relating to the management of liquidity risk and (BIPRU 12.3.10 R), • Regularly (at least annually) reviews Tilney’s liquidity risk tolerance and the continued adequacy of its strategies, policies, processes and systems relating to the management of liquidity risk (BIPRU 12.3.11 R); and • Approves Tilney’s contingency funding plan (BIPRU 12.4.13 R). <p>There are currently ten regulated subsidiaries in the Group, six of which are subject to prudential requirements, three under BIPRU and the other three under IFPRU rules. All six firms are subject to liquidity requirements under BIPRU 12 rules</p>
<p>Mitigation</p>	<p>The Group is subject to financial and regulatory covenants and compliance with these covenants is reported in the monthly CFO's pack.</p> <p>The Tilney Liquidity Risk Management Framework articulates the governance, identification, management and monitoring of such risk in line with the FCA BIPRU 12 rules on Liquidity risk, incorporating the Firm’s own internal liquidity risk stress testing programme.</p> <p>The key objective of this liquidity adequacy assessment approach is to determine the minimum amount and type of liquidity resources that must be maintained by Tilney to withstand the impact of a range of stress events and ensure compliance with its risk appetite limits under both normal and stressed conditions.</p>

	<p>The framework also includes a Contingency Funding Plan (CFP) articulating the steps that may be taken by the Tilney governing body in the event of threat to and disruption of the business arising from stressed liquidity conditions.</p> <p>Liquidity & Capital Committee and Board reportable key indicators are in place for liquidity risk which focus on the liquidity buffer in place with risk appetite set to ensure that a sufficient liquidity buffer over forecasted operating costs is in place and maintained.</p> <p>Key points:</p> <ul style="list-style-type: none"> • The only liquidity risk that the Group faces is cash flow; • Tilney does not trade on its own account, and therefore does not have exposure to intra-day liquidity risk; • Client money and assets are held separately; • A liquidity risk management framework is in place under the oversight of the CFO who provides monthly reporting to the Joint Trading & Executive Committee and the Board.
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5.7 Capital Risk

Capital Risk	
Risk definition	The risk of Tilney not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements or market expectations.
Applicability	Tilney is required to maintain a minimum capital requirement in line with the FCA requirements considering Pillar 1, Pillar 2, Wind-Down and ICG.
Mitigation	<p>Tilney undertakes an annual Internal Capital Adequacy Assessment Process (“ICAAP”) to assess the level of capital that is considered adequate to cover the risks to which it is or may become exposed.</p> <p>Additionally, the following process is in place to mitigate such risk:</p> <ul style="list-style-type: none"> • Capital and liquidity requirements and financial forecasts are assessed monthly by the Joint Trading & Executive Committee and the Board; • Regular (at least yearly & more frequently if required) review of risk appetite, tolerances and associated key indicators; • Stress and scenario analysis, reverse stress testing, and wind-down analysis;

	<ul style="list-style-type: none"> • An internal capital buffer limit of 120% is set above the current minimum requirement set by the FCA; • Quarterly Risk MI reporting to senior management; • Liquidity & Capital Committee and Board reportable key indicators are in place; and • Governance committees which includes an escalation process for significant risks and issues. <p>Tilney must notify the FCA immediately of any breach, or expected breach, of the main capital requirement under the Pillar 1 rules.</p> <p>A Board reportable key indicators are in place on capital risk which focuses on the minimum capital requirement and the capital buffer set to ensure that minimum capital is maintained at an agreed level over the ICG.</p> <p>The potential impact of severe macro-economic scenarios on capital is assessed as part of the ICAAP stress testing to ensure that capital is adequate to withstand such events</p>
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There are other risks which arise in the normal conduct of our business. These risks are identified and managed as part of the overall ERMF process and are taken into account in the Tilney Board’s periodic assessment of the capital adequacy.

There is additional information regarding some of these risks in the Tilney 2019 Annual Report.

6 Remuneration Policy (Article 450)

Tilney is subject to the FCA Remuneration Code (the Code) in respect of remuneration paid to CRD IV categorised code staff (Code Staff). A key objective of the Code is to ensure that remuneration

policies promote effective risk management and that pay practices within firms do not encourage inappropriate risk taking by staff or result in an inappropriate quantum of risk remuneration being distributed relative to capital.

6.1 Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into 3 levels. Tilney's regulated firms fall within the FCA's level 3 and, as such, this disclosure is made in line with the requirements for a level 3 firm. In particular, level 3 firms may, where appropriate, dis-apply the provisions imposed under CRD IV in respect of remuneration structures. These are the rules relating to bonus caps, payment of remuneration in retained shares or other instruments, deferral, ratio of variable remuneration to fixed remuneration, and post-award performance adjustment. The Remuneration Committee has determined that as a level 3 firm, it is appropriate for Tilney to dis-apply the structural requirements including the bonus cap requirement, payment in instrument, deferral, limits on the ratio of fixed to variable remuneration and post-award performance adjustment.

6.2 Decision-Making Process for the Remuneration Policy

The Tilney Board has appointed a Remuneration Committee that is comprised of three of its non-executive directors. The Committee reports directly to the Tilney Board. All key remuneration decisions are subject to approval by the Remuneration Committee. In discharging its responsibilities under its terms of reference, the Remuneration Committee works with the Chief Risk Officer to ensure that risks are properly considered in setting the overall remuneration for Tilney, and in particularly the incentive structures for the Executive Directors, Senior Management and other key professionals, as appropriate.

The Committee has approved a Remuneration Policy which is reviewed annually. In determining the remuneration policy, the Remuneration Committee takes into account all factors it deems necessary, including relevant legal and regulatory requirements and associated guidance, as well as the risk and risk management implications of its decisions. The overall objective is to ensure that employees are provided with appropriate remuneration to encourage the delivery of the best client outcomes, enhanced performance and recognising individual contribution to the success of Tilney, in a fair, compliant and responsible manner and in line with market practice at the relevant time.

6.3 Remuneration Policy Principles

The Remuneration Committee considers all reward decisions with the following principles in mind:

- Operate a group-wide bonus scheme which incentivises delivery against the base case financial plan, particularly the growth targets, and rewards the contribution employees make at an individual and team level;
- Design and implement an incentive plan that rewards long term growth and retention;

- Review total compensation against competitor benchmarks;
- Ensure that we can recruit and retain key talent; and
- Ensure that our approach is compliant and aligned with sound risk management.

These reward principles support the wider business objectives of Tilney.

6.4 Identification of Material Risk Taker Roles

Under CRD IV, each EU regulated entity is required to identify its Material Risk Takers ('MRTs'): these employees are those considered to have a material impact on the risk profile of the entity. The MRTs are identified and reviewed on an annual basis by the Remuneration Committee (or relevant entity Board) in line with the criteria set out under EU regulations. In 2019, 22 roles have been identified as Material Risk Takers across all the CRD IV entities within Tilney.

6.5 The Link between Pay and Performance

Fixed remuneration is set at a level that is sufficient to attract and retain high calibre employees.

Variable incentives may be awarded to eligible employees where the performance of both Tilney and the employee substantiates the award and in accordance with the over-arching principles and parameters set by the Remuneration Committee. This will include bonuses, incentive payments, and any compensation payments deemed appropriate by the Committee. Any bonuses or incentive payments are link to corporate and individual performance and designed to promote the long term success of Tilney, with individuals' conduct and behaviours assessed as part of the award process.

The Committee keeps the balance between fixed and variable remuneration under review.

The Remuneration Policy only allows for variable remuneration through agreed incentive plans, and the rules of those incentive plans govern the delivery of variable remuneration. Therefore, it is not possible to pay variable remuneration through any vehicles that facilitate the avoidance of the remuneration regulations.

6.6 Controlled Functions

The Risk & Compliance function operates independently and the Chief Risk Officer has a direct line of reporting and escalation to the CEO, sits on the Executive Committee, and attends the Risk and Audit Committee.

The Chief Risk Officer undertakes a review of proposed bonus payments as part of the January Remuneration Committees, in order to determine if any bonus should be deferred or reduced, or if the overall bonus pool should be reduced, due to breaches in risk or compliance.

The Risk and Audit Committee approves the appointment/dismissal and the remuneration of the Chief Risk Officer in consultation with the Chair of the Tilney Board. The Chief Risk Officer has a reporting line into the Chair of the Risk & Audit Committee and right of access to the Chairman of the Tilney Board.

The method of determining the remuneration for the Chief Risk Officer is based solely on the achievement of role related KPIs, with no corporate modifier. This helps ensure independence and objectivity in this role.

6.7 Quantitative remuneration information

The remuneration paid to the 22 Code Staff and MRTs is as follows:

	£m
Fixed remuneration	4.0
Variable remuneration (all cash)	1.1
Total Remuneration	5.1

No single individual received remuneration in excess of Eur 1 million.