



EDMOND  
DE ROTHSCHILD

## Edmond de Rothschild UK Group

Pillar 3 Disclosures  
as at 31 December 2020

## 1. Introduction

### 1.1 Regulatory Framework for Disclosures

This document provides information complying with the public disclosure rules known as the “Pillar 3” requirements. The Basel III Accord, implemented by the European Union through the Capital Requirements Directive (“CRD” or “the Directive”) and the Capital Requirements Regulation (“CRR”), establishes a regulatory capital framework for the financial services industry governing the amount and nature of capital that credit institutions and investment firms must maintain. The framework consists of three “pillars”:

**Pillar 1:** specifies minimum capital requirements that firms are required to meet for credit, market and operational risk.

**Pillar 2:** requires firms and their regulatory supervisors to assess the need for the firm to hold additional capital to cover risks not covered under Pillar 1. In the UK this is implemented through the Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by the firm, and through the Supervisory Review and Evaluation Process (“SREP”) undertaken by the Financial Conduct Authority (“FCA”).

**Pillar 3:** requires firms to publicly disclose certain details regarding their risk exposures, capital, risk assessment and risk management arrangements. The Pillar 3 disclosure requirements are contained in Articles 431 to 455 of the CRR and are intended to ensure that disclosures are sufficient to allow market participants to form an assessment of the firm’s risk profile.

### 1.2 Scope of Disclosures

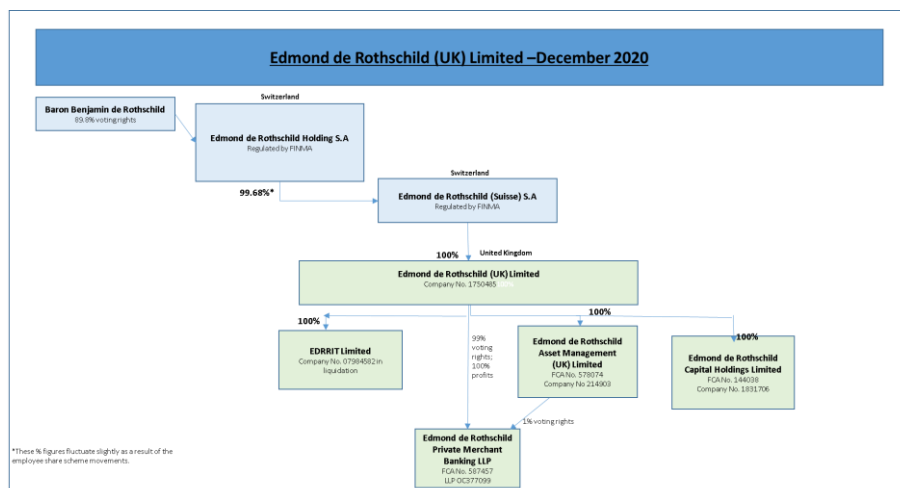
These disclosures relate to the current operating entities of the Edmond de Rothschild UK Group (the “UK Group”) which is comprised of Edmond de Rothschild (UK) Limited (“EdR UK”) and the following three FCA regulated companies:

Name	Firm Status	FRN
Edmond de Rothschild Asset Management (UK) Limited (“EdRAM UK”)	Limited licence IFPRU 50k	578074
Edmond de Rothschild Private Merchant Banking LLP (“EdR PMB”)	Limited licence IFPRU 50k	587457
Edmond de Rothschild Capital Holdings Limited (“EdRCH”)	Limited licence BIPRU 50k	144038

EdR UK, the parent company of the UK Group is not itself an FCA regulated firm but is included within the UK consolidation group for the FCA’s prudential supervision purposes.

The UK Group is part of the wider Edmond de Rothschild group of companies, the ultimate parent company of which is Edmond de Rothschild Holding S.A., a company incorporated in Switzerland and regulated by FINMA. EdR PMB, EdRAM and EdRCH are all directly wholly-owned subsidiaries of EdR UK.

A simplified depiction of the Group structure at 31 December 2020 is shown below



### 1.3 Materiality

CRR Article 432(1) provides that a firm may omit one or more of the required disclosures if the information provided by such disclosures is not regarded as material. Information is considered to be material if its omission or misstatement could change or influence the assessment or decision of a user relying on it for the purpose of making economic decisions.

### 1.4 Proprietary or Confidential Information

CRR Article 432(2) provides that a firm may omit one or more items of information included in the required disclosures if those items include information which is regarded as proprietary or confidential. Information shall be considered as proprietary to a firm if disclosing it publicly would undermine its competitive position and may include information on products or systems which, if shared with competitors, would render the firm's investments therein less valuable. Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

Where information has been omitted from these disclosures in accordance with either CRR Article 432(1) or Article 432(2), this has been stated in the relevant section.

### 1.5 Frequency and Means of Disclosure

These disclosures are published on the website "www.edmond-de-rothschild.com" on an annual basis, in conjunction with the date of publication of the UK Group companies' financial statements. The disclosures will be updated more frequently if necessary to reflect material changes to the UK Group's internal capital adequacy assessments. Given the nature, scale and complexity of the UK Group companies' businesses, this annual publication is assessed sufficient to meet the disclosure requirements under CRR.

These disclosures have been prepared solely for the purpose of fulfilling the UK Group's Pillar 3 disclosure obligations. They have not been audited by the UK Group companies' external auditors and do not constitute any form of audited financial statement.

## 2. Risk Management Governance and Framework

The UK Group's risk management objectives and policies are supported by its corporate governance arrangements and the risk management framework, processes and system of internal controls that have been implemented to mitigate and monitor risk exposures within agreed risk appetites.

### 2.1 Corporate Governance

The Board of EdR UK is responsible for oversight of the UK Group's strategy, business values and standards and ensuring that the necessary resources are in place to achieve those ends. The Board of each of the three regulated UK Group companies (Partnership Governing Body in the case of EdR PMB, but hereafter referred to as a "Board") is responsible for overseeing and directing its company's business and the management of the risks arising from that business.

Each of the UK Group's Boards of Directors are expected to be aware of the major aspects of their firms' risk profiles, especially those risks for which they may need to set aside capital. The Boards are assisted in their oversight of certain governance, risk management and control responsibilities by the Audit Committee and the Risk and Compliance Committee.

The Boards of the UK Group companies meet generally on a quarterly basis. They review, amongst other things, their respective company's financial information (such as monthly or quarterly management accounts, regulatory capital position and audited year-end accounts), HR matters and status reports from departmental heads. The Boards receive updates on relevant regulatory compliance and risk management matters.

### 2.2 Audit Committee

EdR UK has established an Audit Committee to provide senior, independent oversight. The Audit Committee receives information from the Risk and Compliance Committee and from Internal Audit. It meets before the Board meetings of EdR UK and escalates issues arising from its review for discussion at the Board meeting. The members of the Audit Committee are all current or former members of the Edmond de Rothschild Suisse Group Executive Committee.

### 2.3 Risk and Compliance Committee

Notwithstanding the matters reserved for themselves by the Boards, the Risk and Compliance Committee has been established to assist the Boards of each of the UK Group companies in fulfilling their risk management oversight responsibilities by taking an holistic view of and providing oversight of the UK Group's business activities and the risks arising from those activities.

The Risk and Compliance Committee is chaired by the UK Group's General Counsel. It meets generally on a quarterly basis (or more often as required) to review, and to provide assurance to the Boards, that all material risks to which the UK Group is exposed are identified and assessed and that appropriate systems, control processes and policies are in place to effectively manage those risks. The Risk and Compliance Committee is also responsible for providing assurance that controls are operating as intended to ensure compliance with the various elements of the regulatory environment to which the UK Group is exposed.

The Risk and Compliance Committee met on four occasions in the 12 months ended 31 December 2020.

## 2.4 Risk Management Framework

The UK Group has established a framework of risk management processes to identify, measure, monitor, report and, where appropriate, mitigate risks. The framework covers each of the various risk types that the UK Group is exposed to and sets out the responsibilities and escalation procedures for the identification, monitoring and management of those risk exposures. Risks and mitigating controls are periodically reassessed taking into account defined risk appetites. Actions are taken to improve internal controls where risks are identified which fall outside risk appetite, including where weaknesses are identified in the mitigating controls.

The UK Group adopts a typical "three lines of defence" risk governance model, which can be summarised as follows:

### ***First Line of Defence – Business Line Management***

Managers are responsible for ensuring that the risks associated with their business processes are identified and that appropriate controls are implemented to mitigate the threat of adverse outcomes from those risks to within acceptable tolerances. It is a fundamental tenet of the UK Group's risk framework that all managers and staff are responsible for understanding and managing the risks falling within their areas of responsibility, and for communicating in an appropriate and timely manner where risk exposures fall outside agreed risk appetites.

### ***Second Line of Defence – Legal, Risk and Compliance***

The UK Group has a combined Legal, Risk and Compliance department, which advises, and provides risk management, legal and regulatory oversight for, each of the UK Group's businesses. The department has a direct reporting relationship to each UK Group company Board. It is independent of line management and is free to report to the Risk and Compliance Committee, the EdR UK Board or the wider EdR Group Risk, Legal and Compliance functions without having to inform local management that it is doing so.

The department is responsible for designing appropriate risk identification, assessment and reporting processes and for facilitating and supporting their implementation and embedding by line management. It is also responsible for monitoring adherence to regulatory requirements and Group policies and for reporting its findings to senior management and to the relevant Boards.

### ***Third Line of Defence – Internal Audit***

The Edmond de Rothschild group maintains a central Group Internal Audit function. This function reviews the group's activities, including those of the UK Group companies, to provide independent and objective assurance over their operations. The remit and scope of the Internal Audit function's activities includes providing assurance over the suitability and effectiveness of the UK Group's risk management framework, including the execution by management of an effective system of internal controls.

## 2.5 Risk Appetite

As a result of the high profile nature of the Edmond de Rothschild Group's brand, the UK Group has adopted a risk-averse approach to the business it conducts. The Group's overriding approach to risk is to safeguard the assets of its clients and thereby ultimately the reputation of the Edmond de Rothschild Group brand. For the UK Group, overall risk appetites are defined at the parent Group level according to different risk types. These appetites are applied by each UK Group company according to the nature of its activities and appropriate risk mitigation and control strategies are determined.

## 2.6 Internal Capital Adequacy Assessment Process

The ICAAP is the process by which management and the Boards of the UK Group companies oversee and regularly assess:

- the risk exposures of the UK Group companies, including those risks which may arise based on a forward-looking assessment of the companies' business plans;
- the results of scenario analysis of these risks to determine the potential impacts of "severe but plausible" scenarios;
- potential scenarios and their impacts for the orderly wind down of the UK Group companies, and
- the amounts and types of current and future capital and liquidity resources and whether they are adequate to cover the risk exposures and wind down scenarios considered.

The UK Group's ICAAP report describes the framework under which the Boards carry out their assessment and summarises how risks are identified, assessed and mitigated and how much current and future capital is deemed necessary to support the business operations in light of those risks.

The Pillar 2 ICAAP methodology is designed based on the risk reviews undertaken for each area of the business. It uses scenario analysis, involving input from business area experts and challenge by the Risk and Compliance Committee and UK Audit Committee, to derive the capital requirements associated with severe but plausible scenario outcomes. Each of the key risk types affecting the UK Group are considered. Scenarios for each risk type are assessed in relation to their relevance to each of the UK Group companies to determine the potential impacts and the amount of capital appropriate to hold against those impacts. The approach taken is deemed to be proportionate to the nature, scale and complexity of the UK Group's activities.

### 3. Principal Risk Exposures

The most significant risks to which the UK Group is exposed, and the risk management strategies and policies adopted to manage those exposures, are summarised below. This is not an exhaustive list of the risks and uncertainties faced by the UK Group companies, but rather a summary of the principal risks which have the potential to impact materially their financial performance and/or the achievement of strategic objectives.

The Boards of the UK Group companies are satisfied that the risk management policies, mitigation strategies and control processes in place are adequate to manage each category of risk within agreed risk appetites.

#### 3.1 Market Risk

This is the risk of loss arising from fluctuations in the values of, or income from, assets or in interest or exchange rates. None of the operational UK Group companies deal or hold proprietary positions in securities and are not therefore exposed directly to market risk on the value of those securities.

Market risk arises indirectly for EdRCH, EdRAM UK and EdR PMB in relation to the value of assets that underpin revenue streams. This exposure is an inherent aspect of these companies' business models. It is partially linked to investment performance, but also arises due to macro influences on capital markets. Such revenue risks are partially mitigated by the spread of asset types and geographic markets in client portfolios.

All UK Group companies are exposed to foreign exchange risk where underlying assets upon which revenues are derived or fee receivables are due in non-Sterling currencies. While the UK Group does not actively hedge its Profit and Loss exposure to foreign exchange movements, individual companies may choose to hedge these exposures where appropriate.

#### 3.2 Credit Risk

This is the risk of loss arising from the failure of a counterparty to perform its contractual obligations. None of the UK Group companies issues credit.

Each of the UK Group companies is exposed to credit risk arising on its cash deposits with banks and other financial institutions and credit exposures to fee debtors in respect of outstanding receivables. Cash deposits are placed with high quality institutions which are regularly monitored by the central treasury function of the parent Edmond de Rothschild Group. Aged receivables are reviewed regularly and, where appropriate, an amount set aside as provision for debts that are not expected to be received in full.

#### 3.3 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. The UK Group is exposed to a number of different operational risk types which are assessed and managed according to sub-categories of risk defined in the UK Group's risk management framework.

Operational risk is not actively sought; however the UK Group's risk appetite recognises that a level of operational risk is generally unavoidable but that it will seek to mitigate exposures to within acceptable tolerances through the use of control processes and other mitigation strategies, including the use of insurance where appropriate. The more significant operational risks facing the UK Group include process failures, negligent or fraudulent actions leading to legal claims, key person risk, risk of catastrophic systems failure or unavailability of business premises, and breaches of regulatory requirements leading to public censure, fines and reputational damage.

Key elements of the UK Group's operational risk management framework include:

- **Risk Self-Assessment** – senior management in each part of the UK Group undertakes a regular review, facilitated by the Legal, Risk and Compliance department, of the operational risks and related controls in their areas taking into account changes in internal processes and other internal and external factors, and the performance of existing controls, to determine whether risk exposures remain within appetite.
- **Incident Management** – any events arising which result, or could have resulted, in a financial loss in one of the UK Group companies, a breach of legal or regulatory requirements, or reputational damage to the organisation, are required to be reported to the Legal, Risk and Compliance function. All such incidents are investigated and remedial actions agreed, including actions to address root causes. The incident management process also ensures material incidents and trends are reported to senior management.

### 3.4 Liquidity Risk

This is the risk that a firm, although solvent, either does not have sufficient available resources to meet its obligations as they fall due, or can secure them only at excessive cost. Each of the UK Group companies is exposed to liquidity risk in respect of servicing normal operational cash-flow requirements which could arise due to cash-flow mis-matches, such as meeting creditor payments, due to delayed receipt of fee income.

Cash reserves are monitored at least weekly and the UK Group undertakes cash forecasting to anticipate potential liquidity exposures. The UK Group is able to call on additional liquidity via arrangements with the parent group if required.

### 3.5 Strategic and Business Risks

This is the risk of loss or other detriment to the firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and desired strategy. This includes risks associated with income volatility, exposures to asset and revenue concentrations or failure to achieve strategic aims such as business line and product expansion. It also includes risks arising from changes in the competitive, economic, political and regulatory landscape or from the firm's remuneration strategy.

Each of the UK Group companies is exposed to the risk of loss of existing and future business and clients, including exposures to revenue concentrations in particular clients or client types (e.g. by geography or sector). They are also subject to risks arising from the introduction of new or revised regulatory obligations, either directly affecting the firms or indirectly in terms of overall market impacts. The UK Group's Legal and Compliance functions monitor and report regularly to senior management on relevant forthcoming changes to regulatory and legislative requirements.

### 3.6 Other Risks

The UK Group has considered the other risk types defined under the FCA's GENPRU 1.2.30R and IFPRU 2.2.7R. These are assessed as being either not applicable or not material to the UK Group's businesses.

## 4. Capital Adequacy

The UK Group companies undertake an Internal Capital Adequacy Assessment Process on at least an annual basis, and more often as may be required by material changes to the businesses or conditions affecting the businesses. The Risk and Compliance Committee reviews any material changes to risk exposures to assess the need to formally update the ICAAP.

Capital adequacy assessments are conducted on a solo entity basis for each of the FCA-regulated companies in the UK Group as well as on a consolidated basis. The most recent ICAAP for the UK Group was reviewed and approved by the Board of EdR UK on 22 February 2021.

### 4.1 Pillar 1 Capital Requirements

The UK Group companies calculate their Pillar 1 capital requirements, in accordance with the requirements set out in Part 3 of the EU CRR and GENPRU 2.1, as the higher of:

- The Total Risk Exposure Requirement, being the sum of Credit, Market and (where applicable) Operational Risk Capital Requirements, or
- The Fixed Overheads Requirement.

The UK Group adopts the standardised approach to calculating relevant components of the Credit Risk Requirement as 8% of total risk-weighted exposures and the simplified method for determining risk weights.

The standardised approach is also adopted in the calculation of Market Risk Requirements, which include equity, foreign exchange and interest rate position risk exposures. All amounts for the UK Group companies relate to non-trading book exposures.

The three FCA-regulated UK Group companies are Limited Licence Investment Firms and hence a Pillar 1 Operational Risk Requirement is not required to be calculated.

	EdRAM UK £m	EdR PMB £m	EdRCH £m	UK Group £m
Credit Risk Requirement	0.3	0.1	0.1	0.8
Market Risk Requirement	0.5	0.0	0.0	1.3
Operational Risk Requirement	-	-	-	-
<b>Total Risk Exposure Requirement</b>	<b>0.8</b>	<b>0.1</b>	<b>0.1</b>	<b>2.1</b>

The Pillar 1 capital requirements, based on the audited annual accounts for the financial year ended 31 December 2020, are summarised in the following table:

	EdRAM UK £m	EdR PMB £m	EdRCH £m	UK Group £m
Fixed Overheads Requirement	1.2	0.6	0.4	2.1
<b>Pillar 1 Capital Requirement</b>	<b>1.2</b>	<b>0.6</b>	<b>0.4</b>	<b>2.1</b>

#### 4.2 Pillar 2 Capital Requirements

As described in section 2.6 of this disclosure, the UK Group's ICAAP assesses each of the companies' key risk exposures in order to quantify their Pillar 2 capital requirements on a going concern basis. An orderly wind down analysis has also been prepared which considers the net cost associated with discontinuing the UK Group's activities. The results of our Pillar 2 assessments have been compared to the Pillar 1 capital requirements in order to determine the overall capital requirement, being the greater of Pillar 1 and Pillar 2, but are considered proprietary and are therefore not disclosed.

#### 4.3 Capital Resources

The capital resources of the current regulated UK Group companies, as at 31 December 2020, are summarised in the following table:

	EdRAM UK £m	EdR PMB £m	EdRCH £m	UK Group £m
Called Up Share Capital / Members Capital	4.4	29.4	0.3	17.9
Audited Reserves	(0.2)	(28.4)	2.2	(11.0)
Unaudited Earnings as at 31.12.20	-	-	-	-
Other deductions from Tier 1 Capital	-	-	-	-
<b>Common Equity Tier 1 Capital</b>	<b>4.2</b>	<b>1.0</b>	<b>2.5</b>	<b>6.9</b>
Additional Tier 1 Capital	-	-	-	-
Tier 2 Capital	-	-	-	-
<b>Total Capital Resources ("Own Funds")</b>	<b>4.2</b>	<b>1.0</b>	<b>2.5</b>	<b>6.9</b>

Having considered the forecast financial positions of the UK Group companies and the nature of the risks that they currently face or are likely to face in the future, the Board of EdR UK has concluded that there is currently, and is expected to be, adequate capital and liquidity to support both the minimum regulatory requirements (on both a Pillar 1 and Pillar 2 basis) and the ongoing operational needs of each UK Group company and that no additional capital injections to those already planned are necessary.

#### 4.4 Capital Ratios

The capital ratios for the current regulated UK Group companies as at 31 December 2020 are shown below:

	EdRAM UK	EdR PMB	EdRCH	UK Group
Common Equity Tier 1 Ratio	42.4%	10.1%	45.5%	20.7%
Total Capital Ratio	42.4%	10.1%	45.5%	20.7%

## 5. Remuneration Disclosures

The UK Group's three FCA regulated companies each fall within the scope of the FCA's SYSC 19A Remuneration Code (the "Code"), which aims to ensure that firms have risk-focused remuneration policies which are consistent with and promote effective risk management practices. Each UK Group company is classified as a Level 3 firm, which currently allows for a proportional approach to be taken in the application of the Code.

Remuneration paid to the UK Group's employees is governed by the Edmond de Rothschild Group Remuneration Committee which oversees the remuneration for all UK based business within the EdR Group and is independent of UK Group management.

Each company's remuneration arrangements are consistent with the UK Group's overall approach to risk management and do not promote risk taking which is considered to be in excess of risk appetite.

The UK Group's remuneration arrangements have regard to levels of remuneration in the market for staff in control functions and are designed to attract and retain appropriately qualified and experienced staff. Each UK Group company uses a combination of fixed and variable (discretionary bonus) compensation where the fixed pay component is considered to be a sufficient proportion of the overall remuneration package as to allow the company to operate a fully flexible, discretionary bonus policy. Bonuses are set in a manner which takes into account individual performance and the overall results of the firm. Staff performance is formally evaluated and documented at least annually. Staff evaluations consider each individual's performance in meeting a range of agreed objectives and their attitude to risk and compliance.

The Code requires firms to identify individuals whose professional activities have a material impact on the firm's risk profile (known as "Code Staff") and the Code requirements and disclosures (subject to proportionality) apply to those individuals.

The following aggregate quantitative information on remuneration of Code Staff relates to the year ended 31 December 2020. Other than a long term incentive plan implemented for a small number of senior employees, all remuneration was paid in the form of cash. As Tier 3 firms, the UK Group companies do not apply deferral or claw-back provisions; other than under the long term incentive plan. The figures quoted for total number of Code Staff and their remuneration include all individuals classified as such at any point during the year ended 31 December 2020.

*(annualized gross fixed salaries 2020 & variable remuneration for the performance year 2020)*

Code Staff by Business Area	Number	Fixed remuneration £'000	Variable remuneration £'000	Total remuneration £'000
EdRAM UK	4	612	599	1211
EdR PMB	3	780	80	860
EdRCH	3	633	688	1321
Shared Services	2	276	135	411
<b>Totals</b>	<b>12</b>	<b>2301</b>	<b>1502</b>	<b>3803</b>

There were no severance payments to Code Staff in 2020.