

## **Pillar 3 Disclosures**

### **Overview**

Pillar 3 is the third of the CRD's 3 pillar concept:

**Pillar 1** – minimum capital requirements;

**Pillar 2** – Internal Capital Adequacy Assessment Process (ICAAP) and determination by firms if they should hold capital against risks above those covered in Pillar 1; and

**Pillar 3** – requires firms to publish details of their risks, capital and risk management.

Firms are required to certify to the Financial Regulator on an annual basis that they have complied with the new disclosure requirements.

The nature of the disclosures are:

1. Risk Management;
2. Capital Structure; and
3. Capital Adequacy.

### **Risk Management Objectives and Policies**

Tilman Asset Management (TAM) has identified and assessed the risks that it faces. These risks could be described as typical risks that are faced by an investment management enterprise. One of the key risk areas for TAM is the market risk contained in its own trading book. The firm is exposed to market risk in its core business as well as it is reliant on the amount of assets under management for revenue generation. It is also dependent on the experience, knowledge and reputation of its key individuals. The firm is at risk of poor investment performance leading to a reduction in assets under management and withdrawals of funds. The firm is also at risk from general market-related conditions reducing the assets under management. TAM confirms that the risks are within its risk appetite and it believes it has sufficient capital to cover these risks. TAM believes its risk management process is appropriate given the nature and scale of its business operations.

Risks are constantly evaluated to determine the capital requirements of the firm. The following are the principal areas of risks faced by TAM:

#### **Market Risk:**

The current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates in the trading book.

TAM considers market risk to be the primary material risk facing the firm. This is due to the direct relationship between market movements and its level of fee income generation. Market risk is also present within the firm's own trading book.

To address this risk the firm has developed and maintains systems and controls which include:

Systems to calculate the firm's capital adequacy requirements;

- A Trading Book Policy Statement which is reviewed at least annually by the Board of Directors;
- Monitoring of the firm's adherence to the policy statement as part of its compliance testing program;
- Mechanisms to ensure that transactions are correctly allocated between the firm's own book and client accounts;
- Development and ongoing adherence to a conflicts of interest policy; and
- Close monitoring of costs (both variable and fixed) when income levels fall due to market movements.

### **Counterparty Risk:**

The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the firm or its failure to perform as agreed.

The firm considers this a material risk as it outsources critical functions to Goodbody Stockbrokers. The firm believes that the probability of Goodbody's failing to meet their obligations to Tilman is low but if this did occur the impact to the firm's operations could be extremely high.

The firm's exposure to counterparty risk is managed by the following:

- A Comprehensive Service Level Agreement is in place with Goodbody's that is renewable annually;
- Ongoing monitoring of counterparty performance under the Service Level Agreement is carried out and any issues arising are addressed with Goodbody's.

### **Operational Risk:**

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes IT, legal and compliance risk.

IT risk: The current or prospective risk to earnings and capital arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT strategy and policy or from inadequate use of the institution's information technology.

Legal and Compliance risk: The current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed policies or ethical standards.

TAM believes that after market risk and counterparty risk, this is the next most significant area of possible risk that it faces.

To address this risk the firm has the following arrangements in place:

Oversight by the Board of Directors. At least annually the Board reviews the assignment of roles and responsibilities within the firm as well as assesses the effectiveness of the compliance function;

Outsourcing trade execution and back office administrative functions to Goodbody Stockbrokers. This is an appropriate way to mitigate operational risk for the firm as its size does not warrant having these functions fully staffed within the firm itself. Outsourcing to a reputable third party permits Tilman to avail itself of a sophisticated brokerage and back office operation at a lower cost than having these functions performed in house;

Outsourcing certain IT activities to an experienced, professional third party provider. The nature, scale and complexity of the firm's operations does not warrant having this role staffed on a full time, permanent basis within the firm.

**Reputation Risk:**

The current or prospective risk to earnings and capital arising from adverse perception of the image of the firm on the part of clients, counterparties or regulators. TAM considers reputation risk to be a material risk despite its very low probability of occurrence.

To help alleviate this risk the firm requires that all employees sign employment contracts which cover a number of conduct issues.

**Strategic Risk:**

The current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. TAM considers this to be a material risk given the potential for volatility in the market place.

**Interest Rate Risk:**

The current or prospective risk to earnings and capital arising from adverse movements in interest rates.

The firm has very limited exposure to interest rate movements and considers this risk to be non-material.

**Liquidity Risk:**

The current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities as they come due.

The firm considers this to be a non-material risk as the firm has a high level of cash reserves relative to the annual expenses total.

**Capital Structure: as at September 2009**

Tier 1:	€
Share Capital (Ordinary & Preferred)	166,667
Share Premium Account	63,487
Capital Contributions	-
Revenue Reserves	5,684,731
Other Reserves	-
Subordinated Loan Capital	-
<b>Total</b>	<b>5,914,884</b>

**Capital Adequacy: as at September 2009**

<b>Capital Available</b>	€
Tier 1	5,914,884
Tier 2	-
Deductions	(80,000)
Total Capital	5,834,884
Internally Assessed Capital Required	773,994
<b>Excess Capital</b>	<b>5,060,890</b>