

Towers Watson Limited (“TWL”)
Pillar 3 Disclosure Statement as at 31 December 2018

1. Background

On 1 January 2007, the first of the European Union (“EU”) Capital Requirements Directives (“CRD”) came into force. This established a revised regulatory capital framework within the EU to govern the amount and nature of capital that certain credit institutions and investment firms are required to maintain. For TWL’s purposes, the CRD has been implemented in the United Kingdom (“UK”) by the Financial Conduct Authority (“FCA”) through rules contained in said regulator’s General Prudential Sourcebook (“GENPRU”) and Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). Specifically, the CRD framework comprises of the following three ‘Pillars’:

- Pillar 1 sets out the minimum capital requirements for relevant firms based on their credit, market and operational risks;
- Pillar 2 requires relevant firms to assess whether they should hold additional capital to offset any risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish details of their risks, capital resources and risk management procedures.

2. Scope of Applicability of CRD

TWL is an FCA regulated entity. It is categorised as a BIPRU firm and meets the FCA definition of a significant subsidiary of an EEA parent financial holding company. As such, TWL is required to abide by certain provisions of the CRD (namely, CRD III) as transposed into UK law. The ensuing disclosure statement (“Disclosure”) is thus intended to conform with the relevant BIPRU 11 Pillar 3 disclosure requirements. Unless otherwise stated, all figures quoted as part of this Disclosure are based on the audited accounts of TWL for the financial year ending on 31 December 2018.

TWL does not currently foresee any practical or legal impediment to the prompt transfer of capital resources or the repayment of liabilities between the legal entities within the Willis Towers Watson group (aside from limits associated with regulatory capital requirements). This Disclosure pertains exclusively to TWL and not to any other member of the Willis Towers Watson group of companies.¹ This Disclosure is made on an individual rather than a consolidated basis.

¹ For the purposes of this Disclosure, the term “Willis Towers Watson group of companies” or “Willis Towers Watson group” shall include Willis Towers Watson PLC and any company directly or indirectly owned or controlled by Willis Towers Watson PLC.

3. TWL Disclosure Policy

BIPRU 11 permits a firm to omit one or more of the required Pillar 3 disclosures if the information is immaterial or could be regarded as proprietary or confidential in nature. Materiality is determined on the basis of whether an omission or misstatement could change or influence the actions of a user relying on that information for the purpose of making economic decisions. Proprietary information is that which, if shared, would undermine a firm's competitive position. Information is deemed confidential where a firm has binding obligations of confidentiality with respect to such information to its customers, suppliers or counterparties. TWL has made no omissions in this Disclosure on the grounds that information is immaterial, proprietary or confidential.

TWL reviews its Pillar 3 disclosure policy at appropriate intervals and in any event no less frequently than once per annum (timed to coincide with the close of the firm's financial year). The Pillar 3 disclosures are published as soon as reasonably practicable thereafter. In terms of medium, TWL has previously included Pillar 3 disclosures as part of the firm's audited accounts which are publicly filed at Companies House each financial year. However, 2018 accounts are published on a Willis Towers Watson UK webpage.

Risk Management and Governance

TWL's Board of Directors is responsible for the overall management of the firm, and in particular it considers, approves and oversees the implementation of the firm's strategy, risk management processes, and internal governance, and ensures that there is an effective segregation of duties and robust conflicts management.

TWL's Board is comprised of four Directors who together represent a broad base of skills, knowledge and experience, covering TWL's Lines of Business: Human Capital & Benefits, Investment and Insurance Consulting and Technology.

The Board is able to demonstrate a proactive approach to risk management which is aligned to the firm's business activities and strategies. Risk exposures are monitored through the maintenance of appropriate risk registers, and reported at quarterly Board Meetings.

TWL operates a three lines of defence model, with the first line operational controls consisting predominantly of the firm's Excellence framework and second line of defence provided in part by a dedicated Compliance Function. Additionally, the firm's governance structure is in part shared with the wider Willis Towers Watson group, for example the group Audit & Risk Committee, the Internal Audit function, and the group Risk function.

As part of TWL's ICAAP process, TWL reviews the Pillar 1 capital set aside to meet the firm's credit risk, market risk and fixed overhead requirement and compare this with any additional capital requirement identified for Pillar 2 purposes or if stress tests show any

capital shortfalls. The higher of Pillar 1 and Pillar 2 is set aside as TWL's internal capital requirement.

4. Capital Resources

TWL's capital resources as at 31 December 2018 are set out below. The capital resources comprise exclusively of Tier 1 capital; namely, ordinary share capital, share premium and retained profits as described in the balance sheet within TWL's financial statements. There is no Tier 2 capital.

TWL's capital does not currently include any innovative Tier 1 capital resources, hybrid capital or capital instruments which provide an incentive for the firm to redeem them and there are no plans to change this in the foreseeable future.

Capital Type	Notes	Capital Amount (£000s GBP)
Core Tier 1 Capital		
Permanent Share Capital	A	120
Profit and Loss Account and Other Reserves		524,414
Less Deductions	B	(91,220)
Total Tier 1 Capital		433,314
Tier 2 Capital		
TWL has no Tier 2 Capital (gross of deductions or otherwise)		0
Less Deductions		(0)
Total Tier 2 Capital		0
Tier 3 Capital		
Net Interim Trading Book Profit and Loss (gross of deductions)		0
Total Tier 3 Capital		0
Total Capital Resources		
<u>Aggregate (net of deductions) of TWL's Tier 1 Capital plus TWL's Tier 2 Capital plus TWL's Tier 3 Capital</u>		<u>433,314</u>

Notes

- A. This figure represents TWL's permanent, allotted, called up and fully paid ordinary share capital.
- B. Deductions pertain exclusively to intangible assets, primarily goodwill.

5. Capital Requirements

5.1 Pillar 1

5.1.1 TWL is categorised as a BIPRU firm. In accordance with GENPRU 2.1., TWL's minimum Pillar 1 capital resources requirement is therefore determined as the greater of: (a) the base capital resources requirement for BIPRU firms; and (b) the variable capital requirement for the firm.

5.1.2 In turn, TWL's base capital resources requirement and its variable capital requirement may respectively be calculated as follows:

(a) Pursuant to GENPRU 2.1.48R, TWL's base capital resources requirement is €50,000 Euros; *whereas*

(b) Under GENPRU 2.1.45R, TWL's variable capital requirement is the higher of: (i) the sum of its credit risk and market risk capital requirements; and (ii) its fixed overheads requirement ("FOR"). In this regard, the credit risk capital requirement for TWL is currently assessed at £53,675 (£000) and the market risk capital requirement for TWL is currently calculated at £4,138 (£000). Therefore, the aggregate combined credit risk and market risk capital requirements total £57,813 (£000). Conversely, the FOR is currently £99,230 (£000).

5.1.3 The total Pillar 1 minimum capital resources requirement for TWL is accordingly set at the FOR.

The following table sets out the risk weighted exposure amounts for each of the standardised credit risk exposure classes:

Exposure class	Exposure value	Risk weight	Risk weighted exposure amount
	£'000	%	£'000
Central government	10,946	0	0
Institutions	26,584	20	425
Corporates	495,565	100	39,645
Other items	170,060	100	13,605
Total	703,155		53,675
Credit risk capital component			

5.1.4 TWL's non-trading book exposures in equities

As part of the strategy of the Willis Towers Watson group, TWL holds equity investments in group entities for operational reasons.

The net book value of equities held in group companies is £68,825 (£000) (cost £109,789 (£000) less provision for impairment (realised) £40,964 (£000)). The carrying value of these investments is deemed not less than the fair value. None of the equities are traded therefore no market price information is available.

5.2 Pillar 2

TWL's Pillar 2 capital requirement is assessed as part of the firm's Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is a substantial report on TWL's business and the risk environment in which it operates. In particular, the ICAAP considers TWL's risk appetite, risk types pertinent to the firm and risk mitigation factors. It also includes scenario analyses and stress testing of those scenarios.

TWL's capital adequacy position is monitored by the firm's Finance function. Based on these reviews, TWL's Board of Directors is able to consider the need to change any capital forecasts and plan accordingly. The ICAAP is reviewed on at least an annual basis or more frequently if there is a material change in the internal or external business environment.

5.3 Summary

A table summarising TWL's capital requirements is set out below.

Risk Type	Pillar	Total (£000s GBP)
Risk Type 1: Balance Sheet Risk (Credit Risk <i>plus</i> Market Risk)	1	57,813
Risk Type 2: Fixed Overheads Requirement ("FOR")	1	99,230
Overall Minimum Capital Requirement higher of (sum of: (a) the greater of Risk Type 1 and Risk Type 2)	---	99,230

TWL uses the standardised approach to credit risk. This means that TWL's credit risk capital component is calculated as 8% of the firm's total risk-weighted exposures. The exposures which count for this purpose are those which are in the firm's non-trading book and have not been deducted from its capital resources.

6. Capital Adequacy Assessment

A table comparing TWL's current capital resources against its total overall minimum capital requirement is set forth below.

Capital Calculations	Total (£000s GBP)
Current Capital Resources available	433,314
<i>Less</i> Variable Capital Requirement (taken as the total overall minimum capital requirement for the firm)	(99,230)
<i>Equals</i> Total Capital Surplus	334,084

An analysis of this reveals that there is a current capital surplus of £334,084 (£000) which represents a significant buffer over TWL's Pillar 1 capital requirements and is within the firm's risk tolerance. Further, the underlying strength of the business and projected earnings are sufficiently robust to allow TWL to withstand the effects of the full range of extreme adverse events considered as part of its ICAAP. In view of this, TWL expects to maintain its capital position comfortably in excess of its total overall minimum capital requirement for the foreseeable future and is of the opinion that no additional capital is required. This will, however, be kept under regular review.

Exposures to interest rate risk in non-trading book

TWL earns and pays for both interest income and interest expense to certain entities within the Willis Towers Watson group.

At 31 December 2018 the total balance on which interest is earned was £4,828 (£000) and on which interest is paid was £1,381 (£000).

Any significant changes in the interest rate movement would not be material due to the current low LIBOR interest rate to which interest rates are linked.

7. Remuneration

TWL is subject to the FCA's BIPRU Remuneration Code. This section of the Disclosure accordingly provides information on the firm's remuneration structure and governance, as well as quantitative information on remuneration. Towers Watson Limited maintains a Remuneration Policy Statement that is subject to Board review and approval on an annual basis (or ad hoc as required).

The design of TWL's remuneration arrangements is driven by the Willis Towers Watson Global Total Rewards Philosophy as determined by the Willis Towers Watson Plc Board Compensation Committee. The compensation programs encourage and reward prudent discretion and business judgement and appropriate risk-taking over the long term. Total cash compensation reflects a 'pay for performance' approach including salary and bonus for bonus-eligible employees and long-term incentives for TWL's most senior employees who make strategic contributions to the success of the business over time. Individual performance is assessed against a balanced mix of quantitative and qualitative criteria

across four areas: Clients; Financial/Business KPIs; People; and Operational Excellence and Innovation.

There are two Long Term Incentive schemes that are designed to reward selected senior, highest-performing employees: time-based and performance-based deferred cash awards which vest over a three-year period; and Long Term Incentive Plan awards that are in cash and come into payment three years after the end of the financial year in which the underlying allocation pool was created. All forms of remuneration other than the base salary are discretionary and depend on the size of fund pool that is available and meeting performance standards and the Willis Towers Watson values.

A matrix of management and committees is in place to provide independence and challenge in the determination of remuneration design, size of fund pool, and individual awards. The Towers Watson Board Directors have oversight of all regional individual awards.

The preceding paragraphs of this Disclosure cover TWL's remuneration arrangements. Where any TWL Code Staff are employed by other members of the Willis Towers Watson group, other arrangements may apply but appropriate controls are in place to ensure Compliance with the Remuneration Code.

Quantitative information

There were 46 individuals identified as TWL Code Staff during the reporting period; these are people who have influence over the risk profile of TWL. The table below provides an analysis of the remuneration provided to them, as well as figures for all TWL employees, for the period from 01 January 2018 to 31 December 2018.

Remuneration Type	TWL Code Staff² (£000s)	All TWL Staff³ (£000s)
Fixed remuneration	9,511	184,746
Variable remuneration	5,934	52,193
TOTAL	15,445	236,939

² Where any member of the TWL Code Staff performs more than one role within the Willis Towers Watson group, that individual's total remuneration for all activities undertaken for entities within the Willis Towers Watson group is included.

³ This figure relates to staff directly employed and/or remunerated by TWL.