Pillar III Disclosure

Pillar III Disclosure as at 31.12.2019

LGT Vestra LLP (LGT Vestra) is a limited liability partnership between the executive members and the private banking group LGT, owned by the Princely Family of Liechtenstein. LGT Vestra provides wealth management services to private clients, companies, charities, trusts, friendly societies and financial intermediaries. LGT Vestra has subsidiary undertakings, being LGT Vestra (Jersey) Limited and LGT Vestra US Limited (LGT Vestra US), as well as unregulated non-trading subsidiary undertakings (together, the Group). This document is prepared based on the consolidated position of the Group.

Pillar III Disclosure

The EU Capital Requirements Directive (CRD) created a revised regulatory capital framework across Europe and was based upon the provisions of the Basel II Capital Accord.

The Financial Conduct Authority (FCA) is responsible for the implementation of the requirements in the Directive and the details are covered in the FCA handbook.

The Basel II capital adequacy framework consists of three pillars:

- Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- Pillar 2 requires firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires firms to publish certain details of their capital, risks and risk management process. Pillar 3 encourages disclosure so that clients and market participants can assess key pieces of information on capital, risk exposure and the risk assessment process. These disclosures are made public for the benefit of the market.

Frequency of Disclosure

LGT Vestra will make Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date that is the last day of the calendar year and any figures included in this document will be based on the audited consolidated accounts as at that date.

Location of Disclosure

The disclosure will be published on our website.

Verification

The information contained in this document has not been audited by LGT Vestra’s external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on LGT Vestra.

The Pillar 3 disclosures have been reviewed and approved by the Management Board of LGT Vestra.

Risk Management Framework

The risk management framework within LGT Vestra forms an integral part of the management and Board processes including the decision-making within LGT Vestra.

The key components of the risk management framework include:

- Risk appetite statements;
- Risk governance – including risk policies and procedures;
- Compliance & Risk Committee oversight; and
- Processes to identify, measure, monitor and report risks across the business.

Risk Appetite

Risk tolerance is outlined through a framework document that defines the types and degree of risk that LGT Vestra accepts when operating the business. This framework document identifies the controls and oversight undertaken to maintain the risk exposure within acceptable levels.

Risk Governance

The Group's governance framework comprises:

- LGT Vestra LLP Governing Board
- LGT Vestra LLP Management Board
- LGT Vestra US Limited Board of Directors; and
- LGT Vestra Jersey Limited Board of Directors.

The Governing Board sets out the risk appetite and tolerance within which the Management Board manages the business of LGT Vestra.

The Management Board is responsible for setting the risk management and internal controls for LGT Vestra. It is responsible for reviewing the adequacy and effectiveness of the internal controls and risk management processes. In order to identify risks and potential control weaknesses the Management Board draws upon the Risk Dashboard (which is a list of key risks that are reported regularly to the Management Board and are reviewed annually).

This Risk Dashboard together with the Conflicts of Interest Register influences the compliance monitoring regime, which is also endorsed by the LGT Vestra LLP Management Board.

The Compliance and Risk Committee

The overall objectives of the Compliance and Risk Committee are as follows:

a) Provide assurance to the Board that the regulatory compliance and risk profile of LGT Vestra is being satisfactorily managed within the determined risk appetite;

b) Ensure that LGT Vestra has established robust regulatory compliance and operational risk management policies, processes and procedures as well as on-going monitoring to ensure they remain relevant and fit-for-purpose.

Control and risk oversight

Risk management is the responsibility of all staff within LGT Vestra.

LGT Vestra is subject to a number of risks including but not exclusively credit risk, market risk, operational risk, liquidity risk and interest rate risk. LGT Vestra relies on layers of controls, oversight and assurance for risk management these are:

- First line business areas that have responsibility to operate within an effective control environment. The managers of the business oversee policies and procedures applied within in each department and they mitigate and report on risk.
- The risk and compliance control function that sets the framework for effective risk management and provides oversight and monitoring. Finance also contributes to second line reporting.

Keys Risks

Each risk category has an impact on LGT Vestra but risk management is a key component to the functioning of LGT Vestra and will continue to be a focus of management. Each risk category has been identified and analysed to understand the impact it has on LGT Vestra and steps have been put in place to make sure all risks are mitigated as far as is reasonably possible.

Credit Risk

This is divided into counterparty risk and concentration risk but it is essentially the risk that losses will arise from counterparties and clients failing to make good their obligations.

The main material risks result from amounts due from market and client counterparties. To mitigate these risks LGT Vestra undertakes the majority of trades on a delivery versus payment basis i.e. free deliveries are not made. LGT Vestra will only use recognised stock exchanges or retail service providers (RSP). The majority of transactions are executed by the LGT Vestra as agent.

Very few trades are executed on a matched principal broker basis. Concentration risk is mitigated by only using highly credit rated banks and institutions, and exposure is spread over a number of counterparties.

Market Risk

Market Risk is the risk that a firm may incur losses under normal market conditions on a trading book position or portfolio. LGT Vestra's activities in relation to MiFID financial instruments are the fees relating to value of assets under management, to fulfilling or executing a client order and gaining entrance to a clearing and settlement system or recognised exchange. LGT Vestra is exposed to a small amount of foreign exchange risk through its foreign currency activity. Foreign exchange positions are monitored daily and are held for operational reasons.

Operational Risk

This is the risk resulting from a failure of or inappropriate internal processes, people and/or systems. It is not possible to eliminate operational risk, but the aim is to reduce the risk. LGT Vestra's approach to monitoring, recording and mitigating operational risk is appropriate to its size and complexity. Exception reports, such as transactional errors, large movements in prices etc., are produced for review by the heads of departments and management information is produced monthly. LGT Vestra employs appropriately qualified and experienced staff to manage operational risk and to ensure that any exposure is kept to a minimum. In addition, LGT Vestra has professional indemnity insurance in place.

Liquidity Risk

This is the risk that LGT Vestra may face when trying to liquidate assets at fair value should unexpected cash flows result in a liquidity problem. LGT Vestra holds assets for clients and not for its own behalf. LGT Vestra does not trade on its own account and therefore there is no exposure to illiquid securities. When acting as agent on behalf of a client wishing to deal in illiquid stocks, prior approval must be granted and additional internal controls are applied to ensure receipt of funds prior to the passing of stock certificates.

Interest Rate Risk

This is the risk arising from the effect of interest rate changes. LGT Vestra has no significant exposure to interest rate risk because interest rate fluctuations are borne by the client. LGT Vestra's margin made on the interest rate is minimal to the extent that the exposure is low. This policy is set out in the client's terms and conditions.

LGT Vestra is well funded and regulatory capital ratios are monitored and maintained and cash flow analysis is conducted monthly to ensure that LGT Vestra has sufficient capital.

Capital adequacy and ICAAP

The approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ('ICAAP'). The ICAAP Process includes an assessment of all of the material risks faced by LGT Vestra and the controls in place to identify, manage and mitigate these risks.

The risks identified are stress tested against various scenarios to determine the level of capital that needs to be held. Where risks can be mitigated by capital, LGT Vestra has adopted the CRD IV reporting requirements for Pillar 1. Where the Management Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital is added within Pillar 2. The Management Board formally reviews the ICAAP annually.

Senior managers review risks and the required capital more frequently including when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

Capital resources

The regulatory capital resources of LGT Vestra, calculated in accordance with FCA regulations, were last reported at the year-end as follows:

- Common Equity Tier 1 Capital: £27.19m
- Surplus: £15.04m
- Total Capital Ratio: 17.9%

Remuneration

Our remuneration policy is designed to ensure that we comply with the Remuneration Code and our compensation package is in line with our strategy and objectives.

The policy is designed to create a direct link between reward and performance, encourage a team ethic throughout the business, and promote effective risk management. Total remuneration is determined in light of:

- Individual performance both commercially and with reference to the balanced scorecard and other appraisal methods detailed in the remuneration policy;
- The performance of the relevant business unit concerned (with the exception of the Compliance function); and
- The results of the Firm as a whole.

Proportionality

The FCA has sought to apply proportionality in the first instance by categorising firms into 3 levels. The LGT Vestra Group falls within the FCA's third proportionality level and as such, this disclosure is made in line with the requirements for a Level 3 Firm.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our remuneration policy. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

Governance

LGT Vestra Group's Remuneration Committee (RemCom) is responsible for the approval of all recommended awards, taking internal advice as appropriate. The Group does not employ external remuneration advisers.

The RemCom comprises two Executive Members and three non-executive members of LGT Vestra LLP.

The Governing Board is responsible for the adoption and review of the general principles of the remuneration policy and is responsible for overseeing its implementation and carefully considers and monitor the effect of changes to or exemptions from the policy.

The Management Board is responsible for approving any material exceptions made for individual employees.

The Governing Board is responsible for approving changes to the remuneration policy and any material exemptions made for individual Executive Members.

The RemCom meets periodically, but no less than twice in each financial year and will review the remuneration policy for alignment with the detailed implementation procedures for remuneration adopted by the Management Board.

There was one RemCom meeting during the 12-month period to 31 December 2019, this was due to absence, but combined the agenda of our usual two meetings in to one.

Code Staff

The following groups of employees and Executive Members have been identified as meeting the criteria for Code Staff:

- Executive Members of the Management Board;
- FCA Approved Persons who perform a Significant Management Function;
- Heads of control and support functions (Internal Audit, Compliance and Human Resources) and any individuals within their control who have a material impact on the Firm's risk profile; and
- Other material risk takers and any individuals within their control who have a material impact on the Firm's risk profile.

Human Resources review the Firm's Code Staff list at least annually with input from the Compliance function. Individuals are notified by Human Resources of their Code Staff status, where applicable, and the implications of this annually.

While LGT Vestra LLP has identified its own Code Staff, the principles of this remuneration policy apply on a Group-wide basis. The RemCom takes into account multiple reference points within and outside the Financial Services sector when setting remuneration for employees and Executive Members. The compensation arrangements include a mix of base salary or basic profit shares (as applicable), annual bonus and long-term incentives. Pension and other benefits for employees are fixed as a direct percentage of basic salary.

Executive Members do not receive a benefits package but are expected to fund this privately.

Aggregate total compensation cost for Code Staff

The Firm classified 27 individuals as Code Staff in 2019.

Aggregate remuneration expenditure in respect of all Code Staff was £15 213 772 of which 62% represented the fixed element and 38% represented the variable element.

Senior Management:
Number of Code Staff – 10
Fixed remuneration – £2 465 000
Variable remuneration – £3 284 325

Revenue Producing Code Staff:
Number of Code Staff – 12
Fixed remuneration – £2 710 000
Variable remuneration – £5 871 447

Non-Revenue Producing Code Staff:
Number of Code Staff – 5
Fixed remuneration – £648 000
Variable remuneration – £235 000