Towers Watson Limited ("TWL")

Pillar 3 Disclosure Statement for year ending 31 December 2020

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 a 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 2020.

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, prior to 2018 TWL included Pillar 3 disclosures as part of the firm's audited accounts which are publicly filed at Companies House each financial year. However, from 2018 onwards the disclosures are published on a Willis Towers Watson UK webpage.

Risk Management and Governance

Risk governance consists of the structures and processes through which TWL manages its risks. Governance enables the accountabilities and authorities to be clearly defined and allocated; supporting effective decision making by the appropriate forums.

The TWL Board is responsible for overseeing the design and implementation of the Enterprise Risk Management framework and setting the risk appetite. This encompasses overseeing the alignment between the company's strategy and risk appetite, risk management processes and controls and promoting a positive risk culture within the company.

TWL's Board is comprised of five Directors, including one non-Executive Director who together represent a broad base of skills, knowledge and experience, covering TWL's businesses: Human Capital & Benefits, Investment and Insurance Consulting and Technology.

TWL operates a "three lines of defence" model that distinguishes among three groups (or lines) involved in effective risk management. The 1st Line (business units) is responsible for adopting and maintaining appropriate systems and controls in order to manage the risk to their business. The 2nd Line of Defence (such as Compliance and Risk functions) is responsible for designing the risk management processes, used by the 1st Line to manage risks, and monitor the implementation of these processes. The 3rd Line of Defence (Internal Audit) is responsible for providing independent assurance to the TWL Board over controls and risk management practices. The roles and responsibilities covering the three lines of defence have been clearly defined and detailed in TWL's framework of policies and procedures.

4. Capital Resources

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 compares 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.

TWL's capital resources as at 31 December 2020 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		400,300
Less Deductions	B	(64,332)
Total Tier 1 Capital		**336,088**
Tier 2 Capital		
TWL has no Tier 2 Capital (gross of deductions or otherwise)		-
Less Deductions		-
Total Tier 2 Capital		**-**
Tier 3 Capital		
Net Interim Trading Book Profit and Loss (gross of deductions)		-
Total Tier 3 Capital		**-**
Total Capital Resources		
Aggregate (net of deductions) of TWL's Tier 1 Capital *plus* TWL's Tier 2 Capital *plus* TWL's Tier 3 Capital		**336,088**

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 £42,986 (£000) and the market risk capital requirement for TWL is currently calculated at £403 (£000). Therefore, the aggregate combined credit risk and market risk capital requirements total £43,389 (£000). Conversely, the FOR is currently £97,660 (£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	13,618	0	-
Institutions	30,745	20	492
Corporates	363,372	100	29,070
Other items	167,803	100	13,424
Total	**575,538**		**42,986**
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 £27,397 (£000) (cost £108,163 (£000) less provision for impairment (realised) £80,766 (£000)). The carrying value of these investments is deemed not less that 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 analysis 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 an 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 *plus* Market Risk)	1	43,389
Risk Type 2: Fixed Overheads Requirement ("FOR")	1	97,660
Overall Minimum Capital Requirement higher of (sum of: (a) the greater of Risk Type 1 and Risk Type 2)	---	97,660

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	**336,088**
Less Variable Capital Requirement (taken as the total overall minimum capital requirement for the firm)	97,660
***Equals* Total Capital Surplus**	**238,428**

An analysis of this reveals that there is a current capital surplus of £**238,428** (£000) which represents a significant buffer over TWL's Pillar 1 capital requirements and is within the firm's risk tolerance.

The underlying strength of the business and projected earnings are considered sufficiently robust to allow TWL to withstand the effects of the full range of extreme adverse events considered as part of its ICAAP.

The COVID-19 pandemic presents a material external risk. TWL has adjusted its financial assessments to account for COVID-19 impacts. The latest ICAAP 2020 assessment concluded that it continues to maintain the necessary capital and cash to mitigate the risks it faces. This assessment has been reviewed and, subsequently, approved by the TWL Board.

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 2020 the total balance on which interest is earned was £411 (£000) and on which interest is paid was £223 (£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.

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 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 Limited 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 significant 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 2020 to 31 December 2020.

Remuneration Type	TWL Code Staff[2]	All TWL Staff[3]
Fixed remuneration[4]	8,986,519	210,382,847
Variable remuneration	13,425,167	72,983,535
TOTAL	22,411,686	283,366,383
Total No. of colleagues	46	4,234

[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 Towers Watson Limited and excludes Code Staff employed by other (non UK) entities.

[4] There have been some amendments to the calculation methodology used for 2020 figures, meaning a year on year comparison will not be like for like.