HEALTH WEALTH CAREER

PILLAR III DISCLOSURES

MERCER (IRELAND) LIMITED

JUNE 2017

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CONTENTS

1. BACKGROUND

The European Union Capital Requirements Directive ("CRD") came into effect on 1 January 2007.

On 31 March 2014, The European Union (Capital Requirements) Regulations 2014 and the European Union (Capital Requirements) (No.2) Regulations 2014 which give effect to the Capital Requirements Directive ("CRD IV") and the Capital Requirements Regulations ("CRR") were transposed into Irish law.

The framework consists of three Pillars:

- Pillar 1 determines the minimum capital requirements of firms to cover credit, market, and operational risk;

- Pillar 2 requires firms to assess whether they should hold additional capital in respect of any risks not covered by Pillar 1; **and**

- Pillar 3 requires firms to publicly disclose information relating to their risks, capital adequacy, and policies for managing risk with the aim of promoting market discipline.

1.1 FREQUENCY OF PUBLICATION

The disclosures will be reviewed on an annual basis at a minimum and, if appropriate, more frequently. Disclosures will be published as soon as practicable after the finalisation of Mercer's Internal Capital Adequacy Assessment Process ("ICAAP") and the publication of the Annual Report.

1.2 VERIFICATION

The information contained in this disclosure has not and is not required to be audited by the Firm's external auditors and does not constitute any form of financial statement. The information should not be relied on in making any judgment on the Group.

1.3 MEDIA & LOCATION OF PUBLICATION

The disclosures are published on the corporate website.

2. SCOPE AND APPLICATION OF DIRECTIVE REQUIREMENTS

Mercer (Ireland) Limited ("MIL") is an Investment Firm regulated by the Central Bank of Ireland. It is a wholly owned subsidiary of Marsh & McLennan Companies Inc., ("MMCo"), its ultimate parent undertaking. The Board does not currently foresee any material practical or legal impediments to the prompt transfer of capital resources or the repayment of liabilities between the legal entities within the Group.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Firm's risk management objectives and policies are supported by a risk management framework which establishes the governance arrangements and the principles of how risk is to be identified, assessed, quantified, monitored and controlled. The key risk management responsibilities are allocated as shown below.

3.1 GOVERNANCE ARRANGEMENTS

BOARD OF DIRECTORS

The overall responsibility for the framework of risk governance and management lies with the Board of Directors. The Board is responsible for setting the Firm's risk appetite and ensuring that risk is monitored and controlled effectively. The Board has delegated authority to the MIL Risk Committee to provide oversight across all risks faced by the business.

RISK COMMITTEE

The Risk Committee supports the Board in ensuring that it has an adequate understanding of the material risks, overseeing the proper management of these risks, and ensuring the adequacy of MIL capital relative to these risks. The Risk Committee makes recommendations to the Board on the risk appetite and related risk management policies and evaluates whether the risk associated with new services is acceptable. The Risk Committee works closely with the risk owners to understand risk triggers, tolerances, and necessary actions on the part of management to control risk. Ultimately, the Risk Committee is responsible for executing mitigating action where the risk appetite is exceeded.

RISK OWNERS

The day to day management of risk lies with the individual risk owners. The risk owners are accountable for all risks assumed in their area of responsibility and for promoting an appropriate risk management discipline. The risk owners report to the Risk Committee on the status of their risks, escalating any breaches of the risk tolerance and executing remediation action to bring the risk within acceptable levels.

3.2 OPERATIONAL RISK

The majority of the risk management efforts are focused on operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Firm sub-divides the operational risk category by event type: employee practices and workplace safety; clients, products and business practices; damage to physical assets; business disruptions and system failures; execution, delivery & process management; and internal and external fraud.

A variety of techniques are used to manage operational risk, including monitoring key risk indicators and internal controls and the analysis of historical loss events. The Group maintains a comprehensive insurance programme to cover the risks associated with business interruption; casualty; workers' compensation; directors and officer's liability; and professional indemnity exposures. Specialist support functions provide expertise in risk mitigation focusing on areas such as information security; health & safety; risk & compliance; legal; and business continuity management. The key operational risks are developed into scenarios for capital modelling purposes as part of the Pillar 2 assessment.

3.3 PENSION OBLIGATION RISK

Mercer (Ireland) Limited is the principal employer of the Mercer Ireland Defined Benefit Plan ("the Plan"). The Plan is a multi-employer defined benefit scheme that provides pension benefits to eligible employees of Mercer operating companies in Ireland. The Plan is closed to future accruals.

Pension obligation risk is the risk that the funded status of the Plan may deteriorate due to a number of factors: increase in longevity; lower interest rates; negative equity returns; or increased employment costs, and could necessitate increased future contributions to the Plan which may place strain on the Group's cash resources.

Obligations are reviewed on an ongoing basis, and formally as part of the Firm's ICAAP process. Stress testing is carried out on pension obligation risk as part of this process and management considers actions which could be implemented to mitigate the effects of such deterioration in the funding status. The tests are based on a typical set of stresses that are considered to be appropriate when considering scenarios of the severity expected once in 200 years, i.e. a 99.5% one-year value-at-risk ("VaR") or confidence level.

3.4 CREDIT RISK

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet its contractual obligations. The Firm is exposed to two types of credit risk: counterparty credit risk and credit concentration risk.

The Firm's counterparty credit risk arises primarily from its cash deposits with financial institutions and from its trade receivables. The risk is managed through adherence to global treasury guidelines which include the selection of a diversified number of high quality credit institutions, and through operating active client approval and credit control processes. All client receivables are aged and, where appropriate, provisions for debts that are not expected to be collected in full are made in accordance with accounting standards.

Credit concentration risk is a component of credit risk, arising from an exposure to a counterparty (or group of connected counterparties) that is so large that it could threaten the solvency of the institution if the counterparty were to encounter repayment problems. The risk is mitigated by a well-diversified client base meaning there is no significant exposure to any one individual client or group of clients.

3.5 GROUP RISK

The Firm comprises entities which are wholly owned subsidiaries of MMCo Inc. There is a risk that an event elsewhere in the MMCo Group could impact the Firm's operations in Ireland, either through reputational or financial contagion factors. The risk may manifest in two primary ways: brand contagion, and through shared MMCo wide arrangements for insurance coverage. These exposures are minimised by effective management at an MMCo Board level, including stringent policies and analysis of current market trends and threats to achieving the global MMCo strategy.

As part of the Firm's assessment of risk, the uncertainty in the macroeconomic environment, impacting the Firm's ability to carry out its business plan or desired strategy has been considered. The Firm adopts conservative assumptions in all its business planning. There is a business approval process for new service offerings and senior management regularly review client won/lost data. Scenario testing is used to assess the Firm's vulnerabilities under a moderate economic stress scenario, compounding the recent recession, and to consider the mitigating actions which could be implemented to reduce the effects of the scenario on the Firm's capital adequacy. The outcome of the testing is used in determining the Firm's Pillar 2 capital requirement.

4. CAPITAL RESOURCES

The Firm's capital resources at 31 December 2016 are shown below. The Group has no innovative Tier 1 instruments.

	€000's
Share Capital*	6
Reserves	22,596
CET1	22,602
Additional Tier 1 Capital	-
Regulatory Adjustments to Tier 1 Capital	
Intangible Assets	(6,594)
Pension & Related Deferred Tax Adjustments	36,862
Transitional Relief	(23,182)
Total Regulatory Adjustments	7,086
Tier 1 Capital after Regulatory Adjustments	29,688
Tier 2 Capital	-
Tier 1 & 2 Capital	29,688
Total Capital Resources	29,688

* Mercer's share capital is comprised solely of ordinary share capital.

5. COMPLIANCE WITH THE PILLAR II RULE REQUIREMENTS

5.1 CAPITAL ADEQUACY

This section provides a summary of the Firm's approach to assessing the adequacy of its internal capital to support current and future activities.

The Firm's Pillar 2 capital requirement is assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP) described in the paragraph below. The current Pillar 2 requirement has been determined as being lower than the Firm's Pillar 1 minimum capital requirement and, for this reason; the Pillar 1 minimum requirement is adopted as the Firm's current capital requirement.

The ICAAP is the Board's assessment of the Firm's required level of capital, consistent with its risk appetite and business plans. The assessment focuses on the major risks faced by the Firm and on the behaviour of those risks under stressed scenarios. For each major risk, an assessment is made of the potential loss it could cause were it to materialise under a severe scenario. The assessment is performed gross and net of mitigating systems and controls, and after incorporating the effects of insurance. Stress and scenario tests are used to consider the impact of a severe worsening in macro- economic conditions as well as the simultaneous crystallisation of a number of the major risks.

The Firm's capital adequacy position is continuously monitored and regularly reported to the Central Bank. Based on these reviews, the Board is able to consider the need to change any capital forecasts and plans accordingly. The ICAAP is reviewed at least annually or more frequently if there is a material change in the internal or external business environment.

The following shows the Firm's capital requirement and capital adequacy at 31 December 2016:

	€000's
Credit Risk (Standardised Approach)	5,870
Market risk (Standardised Approach for FX Risk)	81
Other	3,468
Internal Assessment of Capital Needs (1)	9,419
Fixed Overhead Requirement (2)	12,137
Minimum Regulatory Capital Requirement (higher of (1) and (2))	12,137
Total Capital Resources	29,689
Surplus Capital Resources	17,552

5.2 CREDIT & MARKET RISK

The Firm's overall minimum capital requirement for credit risk under the standardised approach is expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes.

CREDIT RISK

Exposure class	Exposure value value €000	Risk weight	Risk weighted exposure amount €000
Public Sector	177	100%	177
Central Governments or Central Banks	2	100%	2
Corporates	31,527	100%	31,527
Institutions	37,418	100%	37,418
Institutions	6,067	20%	1,213
Regional governments or local authorities	161	100%	161
Retail	199	100%	199
Other	2,674	100%	2,676
Total			73,373

Credit Risk Capital Component - 8% of risk weighted exposure	5,870

MARKET RISK

Currency	Net Long Positions (debtor) €'000	Net Short Positions (creditor) €'000	Gross Exposure (higher figure) €'000
GBP	-	924	
USD	73	-	
CAD	86	-	
CHF	1		
CNY	13	-	
BRL	5	-	
NZD	-	17	
INR	-	71	
ZAR	-	4	
AUD	2	-	
Total	180	1,016	1,016
Market Risk Capital Component - 8% of gross exposure			81

5.3 REMUNERATION

The Firm is subject to the Central Bank's Code on Remuneration Practice. This section provides further information on the Firm's remuneration policies and governance, as well as quantitative information on remuneration.

DECISION MAKING PROCESS FOR DETERMINING REMUNERATION POLICY

A Group Remuneration Committee (GRC) has been set up by the Board of MIL to oversee the remuneration process for this entity. The GRC meets annually or as required throughout the year and, inter alia, is responsible for:

- Determining, and agreeing with the Board the policy for the remuneration of the Firm's employees that: is consistent with and promotes effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk; is in line with the business strategy, objectives, values and long-term interests of the Group; and includes measures to avoid conflicts of interest.
- Undertaking a periodic review at least annually of the remuneration policy and the list of Central Bank Code Staff.
- Approving the broad policy and framework for variable remuneration plans, including share incentive programmes and extraordinary pension arrangements (but not including matters normally reserved for the trustees such as ill health).

- Approving the remuneration packages of the Firm's Chairman, all Executive Directors and all Central Bank Code Staff annually. No individual will be involved in determining or approving their own remuneration. This will include base salary, bonuses and performance-related payments, discretionary payments, long-term incentive awards, share options and pension contributions.

COMPOSITION OF THE GROUP REMUNERATION COMMITTEE

The current members of the GRC are:

- Tom Geraghty (Non-Executive Director of MIL)
- Vincent Sheridan (Non-Executive Director and Chairman of MIL)

The GRC is supported, where appropriate, by the other senior executives both in Ireland and overseas. In addition, the Remuneration Committee will consider advice from the Chief Risk and Compliance Officer in setting individual remuneration awards where there are concerns about the behaviour of the individuals concerned or the risk exposure of the business undertaken.

LINK BETWEEN PAY AND PERFORMANCE

MIL's discretionary bonus award annually rewards and incentivises excellent performance and aligns the success of the Firm with that of the employee. Bonuses are intended to reflect contribution to the overall success of MIL and to recognise employees who take a long-term view of MIL development.

Employees are assessed throughout the year and rated based on their individual performance and behavioural and technical competencies, and relative to their peers, against their goals. MIL uses a 'Balanced Scorecard' approach to setting and measuring against performance goals. The four quadrants: Clients; Financials; People; and Process ensure a holistic approach to measuring and rewarding performance.

Where other sales incentive plans are applicable to employees, high standards of individual behaviour and compliance act as a 'gate' through which individuals must pass before becoming eligible to receive incentives under these plans. These behavioural gates are in place for all sales incentive plans that Code Staff are eligible for.

The Remuneration Committee annually reviews the balance between fixed and variable pay for executive roles. Executive Code Staff receive a salary and non-executives receive fees.

The table below provides an analysis of the remuneration provided to the 14 employees that were categorised as Code Staff during 2016.

	Total €m
Fixed [1]	2.437
Variable [2]	1.592
Total	4.029

The Firm's total remuneration for Code Staff in 2016 was €4.029m.

1. Includes base salary and other cash payments (excluding variable pay) and Employer pension contributions earned during 2016.
2. Includes total bonus and awards granted in February 2017.

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Mercer (Ireland) Ltd., trading as Mercer, is regulated by the Central Bank of Ireland.
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MARSH & McLENNAN COMPANIES