



WealthKernel

Pillar III Disclosure and Policy for an IFPRU Firm as at 31 December 2019

REGULATORY CONTEXT

The Pillar 3 disclosure of WealthKernel Limited is set out below as required by the Capital Requirement Regulation (CRR) Art. 431et seq. This is a requirement which stems from Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential requirements for Credit Institutions and Investment Firms and amending Regulation (EU) No 648/2012 (“Capital Requirement Regulation”, “CRR”) which represented the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

The CRR, to which the Firm is subject to, has established a regulatory framework consisting of three Pillars:

Pillar 1 establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating risk weighted assets;

Pillar 2 requires a firm to establish an Internal Capital Adequacy Process (“ICAAP”) to assess whether its Pillar 1 capital requirements is sufficient to cover the risks faced by the Firm, and if not, to calculate the additional capital required; and

Pillar 3 requires a firm to disclose specific information about the underlying risk management policies, controls and capital position to encourage market discipline.

Frequency

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

Location of Disclosure

The disclosure is published on our website: www.wealthkernel.com/reports.

Verification

The information contained in this document has not been audited by the Firm’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 the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement with the exception of item(s) falling under: Art 435(2), Art 437 and Art 450.

Confidentiality

The firm is permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the firm's competitive position. Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties. Where the firm has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Information about the Firm

The Firm is incorporated in England & Wales and is authorised and regulated by the Financial Conduct Authority ("FCA"). Wealthkernel Limited is a IFPRU €125k firm and a Limited licence Firm for capital adequacy purposes.

The Firm is a Solo regulated entity.

Risk Management and Governance

WealthKernel is governed by its Board of Directors who determine its business strategy and risk appetite. The Board is responsible for establishing and maintaining the firm's governance arrangements including the design and implementation of a risk management framework, which recognises the risks that the business faces.

The Compliance Officer has responsibility to the Board of Directors to monitor and investigate any Compliance and Operational Risk aspect of the firm's activities. As the Compliance Officer sits on the Board of Directors, assurance that an effective risk management framework is in place is continuously provided.

WealthKernel managers risk via the following mechanisms:

1. The implementation of its policies and procedures. These policies are ratified and reviewed by the Executive Committee, commonly referred to as the Conduct Of Business committee (COB).
2. Senior Management meets twice weekly with the risks faced by the firm being part of the agenda.
3. A monthly risk management meeting, where all members of ExCo along with senior members of both Compliance and Operations teams attend and the Risk Register is discussed.
4. A monthly planning meeting, part of which is the planning for the mitigation of current and emerging risks.

The firm's focused business activities present a very limited risk profile. Importantly, even though it is authorised to deal with Retail Clients as well as Professional Clients and Eligible Counterparties, as a

discretionary investment manager, it does not have any proprietary trading book exposure. There are a number of risks that management and the Board must consider and manage:

- Retaining and attracting new clients. The business revolves on our ability to provide a high quality discretionary investment management service.
- Attracting and retaining talent. The delivery of a best in class discretionary investment Management service depends on experienced, talented and ethical professionals.
- Maintain high quality and rigorous compliance procedures. The firm's reputation and client confidence can only be maintained if the firm maintains the highest ethical standards. This will reduce conduct and operational risk.

DISCLOSURE

Capital Resources / Own funds

As at 31 December 2019 the firm's Core Equity Tier 1 Capital was £4,607,352.

Due to the items on its balance sheet the firms Tier 1 and Own Funds are identical to the above figure of £4,607,352.

Methodology for Capital Resource Requirements

The Firm's Pillar 1 requirement is calculated as the higher of:

- The Base Capital Requirement (€125k); and
- The sum of the Firm's risk weighted exposure to the items in Article 92(3) a. to d. and f. of the CRR.
- The Fixed Overheads Requirement ("FOR")

Since the Firm's Risk Weighted Exposure amount of £634,180 is greater than both the Firm's base capital requirement €125,000 and its FOR £312,500, it is this total which determines the Firm's regulatory capital requirement.

Credit Risk

The Firm has adopted the standardised approach to the calculation of the credit risk capital component of the Capital Resources Requirements, being 8% of the total risk weighted exposures at 31 December 2019, and has been calculated to be £634,180.

Key Risks

The key risks identified by WealthKernel in its ICAAP for the year ended 31 December 2019 were as follows:

- Operational Risk
- Market Risk
- Business Risk

After conducting detailed analysis WealthKernel's senior management concluded that it did not

require to hold additional capital to mitigate operational risk. It also concluded that it would be prudent to hold a capital buffer of £600,000 to mitigate market and business risk.

Therefore the firm's own funds requirement will be £650,735 and its current Own Funds exceeds this.

The firm is also exposed to the following specific risks:

Credit Risk

The firm does not extend credit to its clients. The firm's revenue comes from licence and subscription fees for the use of its proprietary technology and ad valorem fees based on assets under management and held in custody. These ad valorem charges are taken directly from the client portfolios and therefore the credit risk relating to this income is minimum. Furthermore, working capital is held at reputable credit institutions, and the credit risk on these exposures is considered as very low.

Counterparty Credit Risk

This is the risk that counterparties in derivative positions will not make good on any obligations they have to WealthKernel as these fall due. WealthKernel holds no derivative positions.

Market Risk

This is the risk that there is a severe or prolonged downturn in the financial markets, this could be caused by an economic shock e.g. the US housing market crash of 2007/2008 or by an overarching recessionary environment.

Operational risk

This is the risk of a failure in the operations of the company (e.g. its IT infrastructure and the IT infrastructure it provides as part of its services) resulting in a significant loss of revenue and/or increase in costs.

Equity Risk

This is the risk that a movement in equity values will impact the firm's profitability. The firm has no trading book and holds no equity assets on its balance sheet. A small exposure to equity risk is present because the firm's fee income is a function of equity values. However at this stage the variation of fee income due to market movements is negligible. Equity risk is therefore considered Minimal.

Interest Rate Risk

This is the risk that a movement in interest rates will impact the firm's profitability. The firm's balance sheet is not levered and cash balances are predominantly held on overnight deposit. Given this, and the historically low level of interest rates at present, the firm has assessed that no capital charge is Required.

Securitisation Position Risk

WealthKernel does not hold any Securitisation Positions.

Business Risk

This is the risk that potential customers do not wish to use WealthKernels' offering thus leading to substantially less revenue being generated in the future than is projected.

Business risk mitigation:

- Maintain capital well in excess of regulatory minimums.
- The ExCo's expertise within financial services.
- A clearly defined strategy, understood and actively monitored.
- A strong corporate investor base.
- The diversification of marketing strategies to reduce concentration risk.
- A scalable business model.

People Risk

This is defined as the potential of recruiting a person that is inappropriate for their role and also of losing a key individual. The firm mitigates these risks in the following ways:

1. The firm maintains a rigorous recruitment process which includes direct questions to the applicant as to criminal history or pending court cases. Checks will also be performed to identify adverse credit, CCJ's, bankruptcies etc. References are also sought from previous employers.
2. The ExCo feel that due to the skills which have been embedded within the Firm, whilst loss to key individuals would provide a short term problem until a replacement was appointed, the Firm are satisfied that the long term business plan would not be affected and that adequate replacements could be found.

Given the above the ExCo does not feel it necessary to hold additional capital to cover this risk.

Remuneration Policies and Procedures

The firm is required to comply with the FCA Remuneration Code although as a IFPRU Limited License Firm it falls into the FCA's third (and lowest) proportionality tier. This allows the firm to disapply the Remuneration Code requirements relating to:

- The full extent of establishing a Remuneration Committee required by the Code;
- Payment of a proportion of variable remuneration as retained shares or other instruments;
- Deferral of bonuses;
- Performance adjustment of variable remuneration; and
- Setting ratios between fixed and variable components of total remuneration

The firm does not have a Remuneration Committee. Whilst appreciating the contribution that can be made by such a committee, the firm considers that such a body would not be proportionate to the size and complexity of the business. The ExCo of Directors is responsible for the remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Agreeing any major changes in remuneration structures.
- Reviewing the terms and conditions of any new incentive schemes and in particular, considering the appropriate targets for any performance related remuneration schemes.

- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration.
- In determining remuneration arrangements, the Directors will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code.

Competitive salaries form the basis of our firm's remuneration package. In addition, there is an element of variable pay for all staff which is based on firmwide, team and individual performance. Whilst most of the variable reward components are awarded to employees across the firm, the structure, balance and amounts may differ. Variable remuneration is considerably reduced where subdued or negative financial performance of the firm occurs. When assessing individual performance we use a robust performance review process, with reviews which do not relate solely to financial criteria, but will also look at skills acquisition, compliance with regulatory obligations, and adherence to effective risk management over both the short and long term time horizon.

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "material risk takers".

The firm has identified three Code Staff in total for the year ending 2019. These are assessed as ExCo members and Regulated Functions. Code Staff received aggregate remuneration of £105,718.65 for the year ending 31 December 2019.

Code Staff did not participate in any firm bonus scheme, however an employee virtual share option program is in operation for selected employees and Directors. The option scheme is designed to reward these employees and Directors on the long-term performance of the firm.