Pillar III Disclosure and Policy for an IFPRU Firm as at 31 December 2020

REGULATORY CONTEXT

The Capital Requirements Directive ("CRD") is the regulatory capital framework which governs the amount and nature of capital which investment firms in Europe must maintain. The Framework consist of the three pillars below:

> **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.

WealthKernel is incorporated in England & Wales and is authorised and solo regulated by the Financial Conduct Authority ("FCA"). WealthKernel is a IFPRU €730k firm and a Full Scope Investment Firm for capital adequacy purposes. Details on the permissions the Firm holds can be found on the FCA register https://register.fca.org.uk/s/firm?id=001b000002090oWAAQ

WealthKernel is required to make Pillar 3 disclosures as part of the firm's regulatory obligations. These disclosures are made in accordance with the requirements of Articles 431 to 455 of the CRR.

FREQUENCY

WealthKernel will make Pillar 3 disclosures at least annually. The disclosures are as at the Accounting Reference Date which is the 31 December and any figures included in this document reflects the position as at 31 December 2020

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 WealthKernel's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the WealthKernel.

MATERIALITY

WealthKernel 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 WealthKernel 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, as defined in Article 432 (2). Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties.

RISK AND ICAAP PROCESS

WealthKernel is governed by its Board of Directors who determine its business strategy and risk appetite with input from the Conduct of Business (COB) and Risk Committee.

Risk is an inherent part of the WealthKernel's business. WealthKernel's objective is not to completely eliminate risk but to manage it to an acceptable level whilst balancing risk with reward.

Effective risk management assists in the delivery of WealthKernel's strategic objectives; protecting the value of WealthKernel by managing potential threats and adding value by enhancing the ability to take advantage of the available opportunities. It also forms a vital element of WealthKernel's capital planning, helping to ensure the business model is resilient.

The firm has assessed its risks in its Internal Capital Adequacy Assessment Process ('ICAAP') and sets out appropriate actions to manage them.

As WealthKernel is non-complex in its business and operations, the Board considers the risk management systems in place as adequate and proportionate to the firm's profile and strategy.

RISK MANAGEMENT

WealthKernel manages risk via the following mechanisms:

1. The Board, who are responsible for the governance arrangements and risk management framework meets at least three times per year.
2. The implementation of its policies and procedures. The polices are ratified by the COB committee and reviewed and re-ratified on at least an annual basis.
3. COB committee meets twice weekly with the risks faced by the firm being part of the agenda.
4. Risk Committee meetings are held monthly, where key members from each team are represented. The Risk Committee's duties are:
    - To review and monitor the company's future risk strategy and risk appetite, especially in relation to capital, liquidity and operational risk.
    - To identify current and emerging risks and report them to the relevant managers and board members

- To ensure there is adequate and proportionate mitigation of identified risks. Where appropriate, ensure resources are made available to implement the mitigation.
- To review and approve risk policies and any material changes made to these
- To review the appropriateness of the company's investment risk strategy

5. A COB monthly planning meeting, part of which is the planning for the mitigation of current and emerging risks.

KEY RISKS
The firm is exposed to the following primary risks factors:

Credit Risk
The firm does not extend credit to its clients. The firm's revenue comes from license and subscription fees for the use of its proprietary technology and ad valorem fees based on assets under management and assets under 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.

Operational risk
Operational risk represents losses that arise from inadequate or failed internal processes, personnel, the operations of the company (e.g. its IT infrastructure and the IT infrastructure it provides as part of its services) or from external events. This risk management framework allows the Firm to identify potential and actual operational risks and assesses and where necessary amends the controls in place to mitigate such risks.

Market Risk
This is the risk of loss caused by an adverse movement in the price of securities. WealthKernel does not trade on a proprietary basis, but has a small trading book to facilitate the trading of equities. The magnitude of trading book risk is determined by the Firm. The risk management framework deals with the policy setting including relevant limits, and monitoring compliance of any positions against policy, risk appetite and capital requirements. WealthKernel does not hold money in foreign currencies and is not exposed to foreign exchange risk.

Business Risk
Business risk includes changes to the business environment and market in which WealthKernel operates. This includes, but is not limited to, entrance of new competitors, tax and regulatory updates, fall in existing and potential client numbers. All of the above may have an impact on the firm's business model going forward. Under this risk, WealthKernel considered the risk of a governance failure in relation to Appointed Representatives where we act as Principal; and also the impact of failing to be strategic in our business decision and/or the poor implementation of strategic business decision.

Business risk mitigation:

- The Executive Committee expertise within financial services, specifically in the sectors in which we operate.
- A clearly and defined business strategy which is understandable and actively monitored.
- The diversification of marketing strategies to diversify our client base and attract new clients.

- A scalable business model.
- Active horizon scanning of potential regulatory changes and ensure that plans are put in place to comply with them.

DISCLOSURE

Capital Resources / Own funds
As at 31 December 2020 the firm's Core Equity Tier 1 Capital was £3,683,646.

Due to the items on its balance sheet the firms Tier 1 and Own Funds are identical to the above figure of £3,683,646.

Methodology for Capital Resource Requirements
The Firm's Pillar 1 requirement is calculated as the higher of:

- The Base Capital Requirement (€730k); 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.

As at 31 December 2020	**£'000**
Ordinary share capital	19
Profit and loss and other reserves	3713
Balance Sheet Net Assets	**3732**
Capital adjustment for Payment Services Entity	(45)
Total Common Equity Tier 1 items	**3687**
Adjustments to Common Equity Tier 1	(4)
Tier 1 Capital and Own Funds	**3684**
Total Risk Weighted Exposure Amount	**927**
Common Equity Tier 1, Tier 1 Capital & Total Capital Ratio	**397.18%**
Base Own Funds Requirement (€730k)	**657**
Surplus Capital over Pillar 1 Resource Requirement	**3609**

Credit Risk
The Firm has adopted the Standard 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 2020

Total Exposure	Exposure Value (£000)	Risk Weight %	Risk Weighted Exposure (£000)
Institution	3,425	20	685
Corporate	96	100	96
Other Items	39	100	39
Equities	15	100	15

Counterparty Credit Risk

WealthKernel holds no derivative positions.

Capital Buffers

WealthKernel can invoke the exemption in IFPRU 10.7 because it meets the SME definition as an Investment Firm (Recommendation 2003/361/EC).

Use of ECAIs

WealthKernel does not use any ECAIs (External Credit Assessment Institutions)

Operational Risk

WealthKernel has adopted the basic indicator approach for the calculation of capital resource requirement for operational risk. This is computed as 15% of the average relevant income of the Firm over three years. The operational risk capital resource requirement was £92,884 as at 30 December 2020.

Exposure to interest rate risk on positions not included in the trading book

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.

The impact of a reduction in interest rates, and the impact of an increase has been considered within the Firms ICAAP.

Remuneration Policies and Procedures

The firm does not have a Remuneration Committee as it is not proportionate to the size and complexity of the business to have such a committee. COB 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, for which it will be given due regard to best practices and any relevant legal or regulatory requirements.

Competitive salaries, as well as gender-neutral remuneration policies, form the basis of WealthKernel's Remuneration package.

Variable remuneration is considerably reduced where subdued or negative financial performance of WealthKernel occurs. When assessing individual performance we use a robust performance review process which is in line with relevant regulatory requirements. These reviews 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 Firm is a Remuneration Code Proportionality Level 3 firm and has applied the rules appropriate to its Proportionality Level.

REMUNERATION CODE DISCLOSURE

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 2020 being the Executive Directors of the Firm. Code Staff received aggregate remuneration of £191,000 for the year ending 31 December 2020.

Code Staff did not participate in any firm bonus scheme, however an employee 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.