BRI Wealth Management PLC

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## Pillar 3 Disclosure – Year Ended 31st March 2023

### Background

The Basel framework is structured around 3 'pillars':

- Pillar 1 sets out the minimum capital requirements that firms must meet using standard criteria.
- Pillar 2 involves an assessment of risk and the capital that should be held, specific to each firm.
- Pillar 3 requires firms to publicly disclose their policies for managing risk and their capital requirements.

BRI Wealth Management PLC is authorised and regulated by the UK Financial Conduct Authority ("FCA") as an investment manager and as such these annual Pillar 3 disclosures are made in accordance with the UK Financial Conduct authority ("FCA") Prudential Sourcebook for Banks, Building Societies, and Investment Firms ("IFPRU")

The introduction of the Investment Firms Regulation (IFR) and Investment Firms Directive (IFD) which came into effect for UK MiFID investment firms in January 2022 made significant alterations to the prudential framework governing investment firms. The new regime differentiates the prudential regime that will apply to investment firms according to the size and complexity of the firm.

Firms are now required to put into practice new methods of measuring a variety of risks. The new regime deviates from the strict MiFID II services-based categorisation and uses instead quantitative indicators (call K-factors) that reflect risk.

### Scope of application

BRI Wealth Management plc (BRI) is authorised and regulated by the Financial Conduct Authority (FCA) as an investment management firm and under the new regime will be classified as a Class 2 firm and subject to the full prudential IFR/IFD regime.

A class 2 firm is described as an investment firm exceeding the categorisation thresholds for small and non-interconnected investment firms.

The firm is required to disclose Pillar 3 information.

### Disclosure Policy

BRI's Pillar 3 disclosure policy is approved by the Board and reviewed at least annually. Relevant extracts from the policy are repeated here:

The Board has agreed that under normal circumstances Pillar 3 disclosures should be made annually as soon after the Firm's 31st March year end as possible. If BRI's circumstances change such that more frequent disclosure is required, the Board will approve necessary alterations to this policy and other relevant procedures.

The information that is required to be disclosed is set out in the FCA rules and guidance contained in Chapter 11 of the Prudential sourcebook.

The Board has decided to publish BRI's Pillar 3 disclosures on the Firm's web site at:

www.brigroup.co.uk/media-centre/#resources-downloads

Reference to this will be made in the Firm's Annual Report and Accounts.

## Risk Management

BRI's governing body is its Board which is responsible for risk management within the Firm. The Board is comprised of six executive and two non-executive directors. All directors have a significant level of experience of the UK financial services industry.

The Full Board meets as often as is necessary but generally between 8-12 times per year.

The Board is responsible for determining the Firm's appetite for risk and assessing, controlling, and allocating financial resources for its business activities. To facilitate this, the Board approves annual business plans and budgets for all departments of the Firm.

Management accounts are produced for the Board monthly and include stress testing, modelling of revenue and cash flow statements.

An ICARA document is approved by the Board, this replaced the ICAAP document in 2022. The ICARA document assesses the following:

- Identification and monitoring of potential harms. The ICARA needs to demonstrate that adequate risk management has been undertaken by the firm.
- Review of harm mitigation processes.
- Business model assessment, planning and forecasting.
- Recovery action planning and wind down planning.

The Board has established a Risk Management Committee to advise it on risks facing the Firm. The Committee's terms of reference require it to identify, assess and advise the Board about the management of risks facing or potentially facing the Firm based on its current and planned business activities.

## Approach to Risk

The Risk Management Committee's methodology involves assessing all material risks, both regulatory risks and those of a general business nature and recording these in the Firm's risk register. All identified risks are allocated to the individual or department whose primary responsibility is to manage them. The most significant risks are reported to the Board for consideration and, where necessary, remedial action.

For the purposes of Pillar 3 disclosure, relevant risks are categorised as: business risk, market risk, credit risk and operational risk.

## Capital Resources

Class 2 firms are required to always have own funds (consisting of the sum of Common Equity Tier 1, additional Tier 1, and additional Tier 2, subject to certain conditions) which amount at least to the highest of the following:

- The fixed overheads requirement (FOR) – one quarter of a firms fixed overheads from the prior financial year.
- The permanent minimum requirement (PMR) – a figure that increases according to a firm's size and activity.
- Risk responsive computation (K-factors) – based on the new K-factors (a measurement referring to the value of an expected income stream)

As of 31st March 2023, BRI's FOR was **£1,170,521** (this was greater than the sum of PMR and K-factors)

Extra capital is held to protect against the risks of unexpected shocks.

Key ratios are reviewed within the monthly management accounts and stress tested as part of the oversight of available capital, these ratios are also considered within the ICARA document.

Key performance indicators are monitored in line with a rolling 5-year strategic plan as the firm focuses on delivering on strategy through both organic growth and acquisition whilst maintaining a strong capital base.

The table below shows a strengthening in the capital position within the 12-month period, with regulatory capital as a % of the minimum capital requirement increasing from 288% to 348% in the period.

BRI's capital resources are summarised as follows:

| | **31 March 2023 £'000** | **31 March 2022 £'000** |
|---|---|---|
| Ordinary Share Capital | 150 | 150 |
| Retained Earnings* | 2,809 | 2,654 |
| Total Tier 1 Capital | 2,959 | 2,804 |
| Tier 2 Capital | 707 | 857 |
| Total Capital (Tier 1 + Tier 2 after deductions) | 3,666 | 3,661 |
| Pillar 1 Capital Requirement | 1,171 | 1,052 |
| *Regulatory Capital % of Minimum Capital Requirement* | *313.26%* | *348.02%* |
| *** Retained earnings are inclusive of audited earnings for the period** | | |
| Capital Ratios (as % of risk weighted exposure amount) | | |
| Common Equity Tier 1 Ratio (%) | 19.7% | 18.6% |
| Tier 1 ratio (%) | 19.7% | 18.6% |
| Total capital ratio (%) | 19.7% | 18.6% |

## Business Risk

A significant decrease in assets under management would pose a risk to the finances of the firm. To manage this risk, detailed financial reports are circulated to management monthly, in addition to a comprehensive budgeting process that includes monthly variance analysis and scenario testing. The firm has developed a rolling 5-year strategic plan with a focus on growing revenue. The annual operational plans are geared towards achieving the targets as set in the 5-year strategic plan.

Maintaining Capital resources more than the Firm's Fixed Overhead Requirement ("FOR") ensure that in the event of a prolonged downturn, capital would be available to meet all BRI's obligations arising.

## Market Risk

BRI does not trade on its own account or operate a trading book or engage in any other activity that exposes it to material Market Risk.

## Credit Risk

Credit risk is the risk that counterparties will fail to meet their obligations to repay outstanding balances as they fall due. The principal credit risk is that related to monies deposited by the Firm. BRI only deposits money with large UK banks with good credit ratings and therefore considers that this risk is low.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal risk.

As a limited license firm, under the standardised approach to operational risk included in Pillar 1, BRI is not required to hold capital. However, operational risk is considered under Pillar 2, with specific material risks identified as arising from loss of personnel, IT infrastructure failure, and failure of third-party service providers. The resulting capital requirement is included in BRI's Pillar 2 calculation. Several processes are in place to reduce operational risk to acceptable residual levels, such as clearly documented procedures and reporting lines, recruitment of skilled personnel and specialist external advisors, and regular review of service providers.

## Principle risks and uncertainty

### Disclosure of Standardised Credit Risk

BRI has adopted the standardised approach to the calculation of the credit risk capital component of the Capital Resources Requirement being 8% of the total of its risk weighted exposure amounts for exposures. Exposure primarily arises from cash held at UK banks. As of 31st March 2022, no exposures were overdue or considered to be impaired. As BRI's Pillar 1 capital requirement is based on the FOR the board does not consider it necessary to make any specific disclosures in this regard.

### Disclosure on Operational Risk

The Firm is not required to calculate an operational risk capital requirement however it is considered by the Board within the Pillar 2 process which deals with all relevant risks facing the Firm.

### Disclosure on Concentration Risk Management

The Firm monitors its non-trading book exposures in accordance with concentration risk requirements and has adopted the Simplified Standardised Approach. All exposures are monitored to ensure that no regulatory limits are breached.

### Disclosure on Overall Pillar 2 Rule

BRI complies with the overall Pillar 2 rule (as set out in IFPRU 2.2.7) by ensuring that it maintains sound, effective, and comprehensive strategies, processes, and systems:

1) to assess and maintain on an on-going basis, the amounts, types and distribution of financial resources, own funds, and internal capital that it considers adequate to cover:

- a) the nature and level of the risks to which it is, or might be, exposed.
- b) the risk in the overall financial adequacy rule; and
- c) the risk that the firm might not be able to meet the obligations in part three of the UK CRR (capital requirements) in the future; and

2) that enable it to identify and manage the major sources of risks referred to in (1), including the major sources of risk in each of the following categories where they are relevant to the firm given the nature and scale of its business:

- a) credit and counterparty risk.
- b) market risk.
- c) liquidity risk.
- d) operational risk.
- e) concentration risk.
- f) residual risk.
- g) securitisation risk.
- h) business risk.
- i) interest rate risk, including interest-rate risk in the non-trading book.
- j) risk of excessive leverage.
- k) pension obligation risk.
- l) group risk.

**BRI Wealth Management plc**

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