

Pillar 3 Disclosure

Harbour Rock Capital Limited

June 2021

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1. Background

The purpose of this document is to set out the Pillar 3 disclosures of Harbour Rock Capital Limited as of April 2021/22.

i. Disclosure policy

Harbour Rock Capital Pillar 3 disclosures are set out in this document as required by the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), specifically BIPRU 11.3.3R.

Unless stated as otherwise, all figures contained in this disclosure are based on the firm's audited annual reports for the year ending 2021.

ii. Frequency of Publication

The disclosures will be reviewed at least annually, and if appropriate, more frequently. Disclosures will be published as soon as practicable after the publication of the Annual Reports and the finalisation of Harbour Rock Capital's Internal Capital Adequacy Assessment (ICAAP).

iii. Verification

The information contained in this disclosure has not been audited by our firm's external auditors and does not constitute any form of financial statement.

iv. Medium & Location of Publication

The disclosures are published on the Harbour Rock Capital Limited corporate website.

v. Scope of Application

The disclosures in this document are made in respect of Harbour Rock Capital Limited, an FCA regulated entity that is categorized as a BIPRU firm. Harbour Rock Capital Limited provides financial advice and discretionary investment management services.

2. Risk Management Objectives and Policies cont.

Harbour Rock Capital Limited's risk management objectives and policies are supported by a risk management framework that reflects the FCA requirement for a firm to manage a number of different categories of risk. For Harbour Rock Capital Limited, these include: liquidity, credit, market, business and operational risks.

i. Liquidity Risk

The firm manages all cash and borrowing requirements to maximise potential interest income whilst ensuring the firm has sufficient liquid resources to meet the continued operating needs of the business. This is supported by a robust budgeting and forecasting process which has the full involvement of the senior management team.

ii. Credit Risk

The main credit risk for the firm relates to non-payment, or delayed payment, of fees by clients - being the risk that a client does not pay amounts due for services provided. The firm generates fees for advisory services and annual management charges.

The credit risk associated with advisory fees is mitigated by fees normally being deducted from the client's portfolio and paid directly to the firm and completion of the service. All fees are provided for in calculations, particularly those involving fund transfers and withdrawals, to ensure client transparency on portfolio net values. The impact of this risk is further mitigated by the relatively low value of these fees and the high volume of clients generating fees, thereby reducing the impact caused by any individual client.

The firm's annual management charges received from clients are based on a percentage of client assets under management. This risk is mitigated primarily due to charges being deducted directly from client portfolios, thereby significantly reducing the credit risk.

iii. Interest Rate Risk

Harbour Rock Capital Limited has minimal exposure to interest rate risk as it is funded primarily by shareholder reserves, with no external financing costs. Similarly, the firm generates minimal revenues from interest bearing bank accounts.

2. Risk Management Objectives and Policies cont.

iv. Business Risk

Business risk is the risk caused by uncertainty in the macroeconomic environment, impacting the firm's ability to carry out its business plan or desired strategy. The firm adopts conservative assumptions in all its business planning. Business risk includes damage to physical assets; business disruptions; and system failures.

Harbour Rock Capital Limited regularly consider various economic scenarios to model the impact of economic downturns on its financial position and assess Harbour Rock Capital Limited's vulnerability to a reduction in revenue and consider what mitigating actions which could be implemented to reduce the effects on the firm's capital adequacy.

The firm recognizes that its activities are heavily concentrated on pension advice, with a particular focus on pension freedoms. In recent years, the firm has broadened its focus to include transfers by clients not eligible for pension freedoms and has identified further areas to broaden its commercial focus beyond pensions. The firm plans to continue to invest and expand its product offering in a planned and controlled manner.

The firm is profitable and cash generative. It maintains high capital resources and is well placed to take advantage of new opportunities.

v. Operational Risk

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events. Major sources of operation risk include outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance.

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 firm maintains a comprehensive insurance programme to cover risks associated with business interruption; cyber; injury; Directors and Officers liability and Professional Indemnity exposures. Specialist support functions provide expertise in risk mitigation focusing on areas such as information security; health and safety; compliance; legal and business continuity management. Key operational risks are developed into scenarios for capital modeling purposes as part of the Pillar 2 assessment.

3. Capital Resources

i. Capital Resource Requirement

The Firms capital resources at 31 March 2021 is composed of Tier 1 capital only. The firm does not have any Tier 2 or Tier 3 capital as defined in GENPRU 2.2 and the capital resources table in GENPRU 2 Annex 4.

This is shown below:

Permanent share capital	A	1	80,005
Externally verified reserves	A	2	2,687,901
Tier 1 capital	D	3	2,767,906
Deductions	E		0
Total Tier 1 Capital	F		2,767,906
Total Tier 2 Capital	I		0
Tier 1 plus Tier 2 Capital	L & N		2,767,906
Tier 3 Capital	Q		£0
Total capital resources	T		2,767,906

Notes

1. Share capital is the permanent, allotted, called up and fully paid ordinary share capital
2. The externally verified reserves include the profit & loss account and retained earnings
3. Balance carried forward

3. Capital Resources

ii. Tier characterisation

Tier 1

- Able to absorb losses.
- Available when required (for BIPRU firms only).
- Ranks for repayment upon winding up, administration or similar procedures after all other debts and liabilities.
- No fixed costs, that is, there is no inescapable obligation to pay dividends or interest.

Tier 2

- Forms of capital that do not meet the requirements for permanency and absence of fixed servicing costs that apply to tier one capital. For example:
 - Capital which has no fixed terms but is cumulative (servicing costs cannot be waived at the issuer's option, although they may be deferred – for example, cumulative preference shares) only perpetual capital instruments may be included in upper tier two capital.
 - Capital which has a fixed term or which may have fixed servicing costs that cannot generally be either waived or deferred (for example, most subordinated debt); such capital should normally be of a medium to long-term maturity (that is, an original maturity of at least five years); dated capital instruments are included in lower tier two capital.
 - For BIPRU firms: certain revaluation reserves such as reserves arising from the revaluation of land and buildings, including any net unrealised gains for the fair valuation of equities held in the available-for-sale financial assets category.
 - For BIPRU firms: general/collective provisions.

Tier 3

- Forms of capital conforming least well to the characteristics of capital listed in either subordinated debt of short maturity (upper tier three capital) or net trading book profits that have not been externally verified (lower tier three capital).

4. Compliance statement

i. Capital Adequacy

Harbour Rock Capital Limited as a MIFID firm is classified as a BIPRU €50K firm and is subject to the BIPRU sourcebook in the FCA handbook. In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), the Firm's capital requirement is determined by the higher of (i) the Base capital requirement (€50K); (ii) the sum of credit and market risks capital requirement; and (iii) the fixed overhead requirement. The Pillar 1 capital requirement is the fixed overhead requirement, £1.3 million.

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

The ICAAP is Harbour Rock Capital Limited 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 incorporation the effects of insurance. A variety of techniques are used to support the potential loss figures. Stress and scenario tests are used to consider the impact based on a variety of events.

The following shows the Firm's capital requirement and Capital adequacy at 31 March 2021 is:

	£
Credit risk (standardised approach)	328,339
Market risk	-
Sum of credit & market Risk	<u>328,339</u>
Fixed overhead requirement	<u>1,363,526</u>
Pillar 1 capital requirement (higher of (1) and (2))	1,363,526
Total capital resources	2,767,906
Surplus Capital resources	<u>1,404,381</u>

4. Compliance statement

ii. 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

Exposure Class	Exposure Value	Risk Weight	Risk Weighted
Institutions	2,923,924	20%	584,785
Corporates	1,421,136	100%	1,421,136
Other Items	2,098,315	100%	2,098,315
Total			<u>4,104,235</u>
Credit Risk Capital component (8.0% of risk weighted exposure)			328,339

Specific disclosures in relation to market risk are considered immaterial under BIPRU 11.3.5R (Exemption from disclosure: Materiality) as the Firm does not undertake any principal trading on its own account, is not exposed to any material foreign exchange risk, does not have any external debt, and does not rely on interest income to fund its operations.

iii. Remuneration

The firm is subject to the FCA's BIPRU Remuneration Code. 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

The Firm's Remuneration Committee meets regularly throughout the year and, inter alia, is responsible for:

- Undertaking a periodic review of the Firm's Remuneration Policy to ensure continued compliance with the FCA BIPRU Remuneration Code, and ensure that:
 - it is consistent with and promotes effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk or irresponsible business conduct,
 - is in line with the business strategy, objectives, values and long-term interests of the Firm, and
 - encourages fair treatment of clients and includes measures to avoid conflicts of interest.
- Agreeing, maintaining, and periodically reviewing (at least annually) a list of FCA BIPRU Code Staff, including agreeing and maintaining the policy and process for ensuring that correct individuals are identified as Code Staff and ensure the remuneration structures are reviewed for compliance with the FCA Remuneration Code.
- Approving the broad policy and framework for variable remuneration plans, including share incentive plans and extraordinary pension arrangements.
- Approving the remuneration packages of Executive directors and all FCA BIPRU Remuneration Code Staff annually. No individual is involved in determining or approving their own remuneration. This includes base salary, bonuses and performance-related payments, discretionary payments, long-term incentive awards, share options and pension contributions.

4. Compliance statement

Composition of the Remuneration Committee

Harbour Rock Capital Limited's Remuneration Committee is comprised of the board of directors. Harbour Rock Capital Limited does not currently have any non-executive directors.

Link between pay and performance

Harbour Rock Capital Limited's discretionary bonus rewards incentivise excellent performance and aligns the success of Harbour Rock Capital Limited with that of its employees. Bonuses are intended to reflect contribution to the overall success of Harbour Rock Capital Limited and to recognise employees who take a long-term view of Harbour Rock Capital Limited's development.

Where other sales incentives plans are applicable to employees, high standards of individual behaviour and compliance act as a 'gateway' through which employees must pass before becoming eligible to receive incentives under these plans. These behavioural gateways are in place for all sales incentive plans that Remuneration Code Staff participate in. The Remuneration Committee annually reviews the balance between fixed and variable pay for executive roles. Executive code Staff receive a salary and Non-Executive code Staff will receive fees.

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