Pillar 3 Disclosure Statement 2019

Overview

This Pillar 3 disclosure has been prepared to show how Octopus Capital Limited group (OCL or Octopus) has addressed the obligation upon it as an FCA regulated group. Under the FCA rules the OCL companies are categorised as follows:

- Octopus Investments Limited – Limited Licence EUR 125k IFPRU firm
- Octopus Healthcare Adviser Ltd – exempt CAD firm
- Octopus AIF Management Limited – EUR 125k full-scope external UK AIFM
- Octopus Property Lending Ltd – consumer credit firm subject to CONC 10
- Octopus Wealth Limited – MiFID II Article 3 exempt firm
- Octopus Co-Lend Limited – operator of P2P platform
- Octopus Electric Vehicles Limited – credit broking
- Octopus Energy Limited – appointed representative of non-Octopus FCA regulated firm

Octopus is allowed to adopt a proportional approach to preparing its ICAAP and the content of this statement reflects the relevant FCA guidance. All Octopus regulated activities are covered by the ICAAP.

The major risks to the business were agreed by the OCL Board and the ICAAP was subsequently approved and adopted by the Board.

Regulatory Framework

The Basel Committee on Banking Supervision published its set of rules on 16th December 2010, referred to as Basel III. The rules apply to credit institutions and investment firms.

The Basel framework consists of a three “Pillar” approach:

- Pillar 1 establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating risk weighted assets;
- Pillar 2 requires banks and investment firms to have an Internal Capital Adequacy Assessment Process (ICAAP) and requires that regulatory supervisors evaluate each firm’s overall risk profile as well as its risk management and internal control processes; and
- Pillar 3 encourages market discipline through a prescribed set of disclosure requirements which allow market participants to assess the risk and capital profiles of banks and investment firms.

The transposition of the Basel III framework into EU law is in two parts: the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR). Part Eight of CRR includes additional provisions on regulatory disclosure for credit institutions and investment firms. Both the Directive and Regulation are applicable since 1 January 2014. Both the CRD and CRR were subsequently implemented in the UK via the FCA Handbook.

This disclosure contains the Pillar 3 disclosures for highest consolidated level of regulated Octopus Capital Limited (OCL) entities within the United Kingdom and provides information on OCL’s capital structure, capital adequacy, risk exposures and risk weighted assets.

This disclosure fulfils the requirements as set out in Part Eight of CRR, and in supplementary Implementing Technical Standards.

Disclosure Policy

BIPRU 11 provides that a firm is permitted to omit one or more required disclosures if the information is immaterial or could be regarded as confidential or proprietary in nature. Octopus regards information as material in disclosure 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 Octopus deems a certain disclosure to be immaterial, it may be omitted. Octopus regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products, investments held in those product strategies, clients and investors or systems which, if shared with competitors or publicly, could render Octopus services less valuable. Further, Octopus must regard information as confidential if there are obligations to customers or other counterparty relationships binding Octopus to confidentiality. In the event that any such information is omitted, Octopus shall disclose such and explain the grounds why it has not been disclosed.

Unless otherwise stated, all figures are based on the audited financial statements of Octopus for the year ended 30th April 2019.

Frequency of Publication, Verification and Publication

This disclosure will be reviewed annually or more frequently if appropriate. The disclosure will be published as soon as practicable after the completion of Octopus' annual financial statements and Internal Capital Adequacy Assessment Process (ICAAP).

The information contained in this document has not been audited by Octopus' external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Octopus.

The Pillar 3 disclosure is published on Octopus website www.octopusinvestments.com

Risk Management Objectives and Policies

The Group operates a risk management structure that is based on the three lines of defence model in order to support the Group's business.

Management – assessment and management of risks within each team (first line)

The Group Executive Committee has overseen the identification of risks from the various teams around the business. These risks are captures in the risk register which is maintained by Risk. To ensure risk coverage of each team the Group has appointed "Risk Coordinators" who are involved in promoting a culture of risk awareness, ensuring that all risks are identified and documented with appropriate mitigation in place and reviewing risks incidents raised by their teams.

Oversight – the risk management and compliance functions (second line)

The Group Executive Committee has overall responsibility for the day to day management of the risks faced by the business (subject to oversight by the Board). The Head of Risk & compliance reports into the Group Chief Executive and is responsible for establishing and maintaining the Risk Management Framework. The Compliance team has responsibility with regards to everyday advisory to business stakeholders, advising on regulatory matters and for monitoring of the effectiveness of systems and controls.

Assurance – internal audit (third line)

The internal audit function reports into the Chair of the Octopus Capital Audit and Risk Committee. Internal audit have a six-monthly risk based internal audit plan which ensure that internal audit is focused on the critical risks to the business, including key strategic and operational risks and related controls as well as compliance and financial reporting.

As part of the risk framework Octopus operates risk assessment process which is carried out on a semi-annual basis comprising of the following:

- A risk and control self-assessment process to identify risks within the various business areas
- An assessment of the impact of that risk on the business
- Identification of controls in place to mitigate risks
- Identification of monitoring in place to mitigate risks as well as the frequency of monitoring
- An assessment of the probability of the risks occurring, taking into account the controls that have been implemented to reduce the likelihood of a risk materialising or mitigate the impact if one did materialise
- Assessment of the risks on the business
- Assessment of whether the risk should give rise to additional capital under Pillar 2

Capital Resources and Capital Requirement

Capital adequacy is assessed formally on a regular basis. This involves comparing resources with the capital requirement and assessing whether there is a sufficient surplus of capital resources. Octopus' capital is the higher of Pillar 1 plus Pillar 2 capital (as described below) or the wind down requirement. The wind down requirement is the forecasted cost of winding the business down in an orderly manner, which takes all contractual obligations into consideration. Octopus' regulatory capital is the Pillar 1 capital plus Pillar 2 capital.

Pillar 1 capital requirement

Octopus Investments Limited is a limited licence EUR 125k IFPRU firm. This means that it's minimum regulatory capital requirement (Pillar 1) is the highest of the following:

- Its base capital requirement of EUR 125,000
- The sum of its market and credit risk requirements
- Its fixed overhead requirement

Pillar 2 capital requirement

The ICAAP provides an assessment of Octopus' risks, risk appetite and determines the level of capital required to deal with those risks. For each key risk, Octopus has identified the probability and severity of the risk materialising and the mitigating factors adopted by Octopus. Reverse stress testing is also included as part of the process.

The ICAAP assessment is reviewed by the Audit and Risk Committee on an annual basis or when material change to the business occurs.

The results of the ICAAP analysis are summarised below:

Pillar 1 total	£27,984,000
Pillar 2 total	£30,499,000
Wind-down requirement	£17,630,000
Total capital requirement	**£30,499,000**
Total regulatory capital	£236,813,000
Surplus capital	**£206,314,000**

Based on the calculation above Octopus considers that there is sufficient capital to ensure the Group can continue to meet its requirements.

Credit and Counterparty risk

The Credit Risk element comprises the credit risk capital component which reflects the risk that the Group is unable to realise the cash value of its assets or has to pay out an off-balance sheet liability. It is calculated based on the standardised approach using 8% of the risk weighted expose amounts. This has been estimated at £25,852k and is adequately covered by current capital levels. The credit risk is monitored monthly through management accounts which are reviewed by the Management Committee. Debtors are managed monthly through an aged debtors report and are collected in a timely manner.

Market Risk

In calculating Market Risk capital we have taken into regard the interest rate risk and foreign exchange risk. The Group does not hold material commodity or foreign currency positions and therefore these were not included in our calculations. The Group holds non-trading book equity positions, and these are covered under our credit risk calculation. We have calculated our market risk capital requirement as £2,132k.

Operational Risk

As a limited license IFPRU firm we are not required to calculate an operational risk capital requirement under Pillar 1. However, operational activities are fundamental to the successful running of the Group and one of our key risks is operational risk and this is considered in our capital provisions and set aside additional capital as part of our Pillar 2 operational risk assessment.

Liquidity Risk

Octopus holds sufficient cash to meet its liquidity needs. Cash flow forecasts are performed and reviewed monthly and cash is reconciled daily. Sufficient cash is held daily in a current account, with excess funds held in a monthly deposit account according to cash flow forecasts at the time. Liquidity risk is considered, and the systems and controls reviewed annually as part of the ICAAP process.

Other Risks

Changes in interest rates do not materially affect Octopus' earnings which are primarily linked to performance of AUM and not interest income. Octopus does not have any material debt which would be affected by a change in interest rates. Therefore, any change in interest rates would not materially change the present value of future cashflows or the underlying value of Octopus' assets and liabilities and thus we do not consider interest rate risk to be material.

Octopus runs a defined contribution pension scheme and therefore there cannot be any deficit of payments and these are drawn in equal instalments throughout the year. We do not consider a risk.

Octopus does not have any leverage exposure and therefore there is no leverage risk. During our ICAAP assessment we have also considered Group, Business and Concentration risks but we have no deemed this as material.

Remuneration

Octopus has adopted a remuneration policy which complies with the requirements of Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), as interpreted in accordance with the FCA's guidance on disclosure of remuneration and BIPRU 11.5.20R.

Decision-making process for remuneration policy

On behalf of the Board, the Remuneration Committee is responsible for approving and overseeing the implementation of Octopus' remuneration policy. This includes ensuring that the Group's remuneration arrangements are consistent with and promote sound and effective risk management and do not encourage excessive risk taking.

The Committee also reviews and approve the remuneration of those employees that have been identified by the policy as being within the scope of the requirements of the FCA's Remuneration Code ('Code Staff'). Employees are considered to be a code staff if their role has a material impact in determining the Group's risk profile. The Octopus Group's Code Staff are defined as the Executive Director's and other employees performing FCA Significant Influence Functions (SIFs) and a record is maintained by the Organisational Development team. The link between remuneration and performance Remuneration is comprised of fixed pay (salary and benefits) and variable pay (performance-related bonuses). Performance related bonuses are designed to reflect performance in individual roles and success against a balanced range of targets. A proportion of variable pay is deferred each year.

Aggregate remuneration for Code Staff

Octopus is required to disclose the aggregate remuneration of Code Staff. For the year ending 30 April 2019 the annual remuneration was £9.7m. This is comprised of fixed pay, variable pay, non-contributory pension and benefits in kind in accordance with the rules. Octopus considers that it does not operate with distinct business areas given its position as a UK focused asset management business and therefore the aggregate information on remuneration is disclosed for the Group as whole. Due to the limited number of Code Staff within Octopus, the Group considers it appropriate to disclose aggregate remuneration across all Code Staff so as not to prejudice individuals with regard to disclosure of personal information.