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City Asset Management PLC Pillar 3 Disclosure 30 September 2016

Introduction

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The requirements of the CRD have been outlined by Financial Conduct Authority (FCA) rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Investment Firms (IFPRU). Pillar 3 also incorporates the provisions of Systems and Controls (SYSC 19) related to remuneration.

City Asset Management PLC is an IFPRU 125k firm (as defined by the FCA) and needs to comply with the EU CRR and the FCA's IFPRU handbook. CRD IV introduced a stricter definition of capital resources, increased capital requirements, increased reporting obligations (COREP), binding liquidity ratios and new requirements on remuneration. However, the existing Pillar 2 ICAAP assessment, and the FCA's Individual Capital Guidance ("ICG"), is materially unchanged from the previous regime and has been effectively transcribed into the IFPRU handbook.

Following on from the latest ICAAP assessment, the Firm remains comfortably in excess of its minimum capital requirements under CRD IV.

This document has been developed and published by City Asset Management PLC ("CAM") in order to provide material information for market participants to assess key information about the Company's risk management objectives and controls, its remuneration policies and its capital position.

Overview

The Capital Requirements Directive IV ("CRD") of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are set out in the CRD under three pillars:

- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, market and operational risks.
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital. This is implemented through the Internal Capital Adequacy Assessment Process (ICAAP) undertaken by the firm.
- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

The rules in the PRA and FCA Prudential Sourcebook for Investment Firms ("IFPRU") set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 disclosure obligations.

Frequency and Verification of disclosure

Future disclosures will be issued on an annual basis. The Pillar 3 disclosures have been reviewed and approved by the Company's Board. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

Location
This report will be published CAM's website (www.city-asset.co.uk).

Scope and Application of the requirements
CAM, established in 1988, is mainly owned by its working directors. CAM is authorised and regulated by the Financial Conduct Authority (FCA) and our FCA register number is 122483. The Company predominantly provides discretionary investment management and financial advice services to private clients, but also provides these services to trusts, corporations and pension funds. Over 95% of CAM's client base may be categorised as "Retail Clients" for FCA purposes, with a small number of "Professional Investors" and "Eligible Counterparties". For regulatory purposes, CAM has a Prudential Category of 3 and is classified as a Flexible Portfolio Firm for the purposes of FCA conduct supervision.

According to IFPRU, and for capital requirements, CAM is classified as an IFPRU €125,000 limited licence firm, which holds client assets but does not trade on its own account. There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources, or repayment of liabilities.

Risk Management and Governance

The Board of CAM is the governing body ultimately responsible for the risk management regime, as well as ensuring that the governance and culture of the firm starts at the Board. The Board has a number of committees that report in to it together with monthly Management Information ("MI") which helps it to identify trends and issues that may need addressing. In addition to this, the Board reviews and determines the Business Model, Business Plan, ICAAP and other significant regulatory reports. Staff are regularly updated on major themes in the industry together with training on key risk areas as well as major initiatives within the firm. All of this is put into place to ensure the culture of good consumer outcomes, coupled with a strong culture of compliance and governance, are at the heart of the business.

CAM gives serious attention to risk control across the whole range of its activities with specific reference to the following functions:

- Organisational structure
- Business and operational processes
- Compliance monitoring and reporting
- Staff development and integrity

CAM proactively manages the risks that arise from its operations and has identified Liquidity Risk, Market Risk, Operational Risk, and Business Risk as the principal risks affecting the Company.

Because of the nature of its operations and business scope, CAM does not routinely expect to be materially exposed to Credit Risk, Insurance Risk, Concentration Risk, Securitisation Risk, and Pension Obligation Risk. Although interest is not a material direct risk, variations in rates may have an impact on the Company's profitability from interest earned on cash balances.

CAM's directors and managers are fully involved in risk management and hold both regular monthly and ad hoc Board meetings, and also weekly Risk and Compliance Committee ("RACC") meetings where risk controls and risk events are discussed and action taken, where necessary.

In addition to the above meetings, the Risk and Compliance Department also produces, for management review, a monthly "Management Information" report containing key facts about the operation of CAM.

The Risk and Compliance Department also monitors departmental reporting processes covering all regulated activities across the entire Company.

The Company maintains a Risk Register which details all of its main risks together with procedures and controls to address them. Risks are rated, reviewed and monitored on an ongoing basis with a register that is dynamic in terms of how it operates as the business environment changes.

CAM aims to maintain enough capital to exceed minimum capital adequacy requirements; the business is managed with an approach that seeks to minimise or mitigate identified risks that CAM is exposed to. The business aims to utilise working capital to its maximum potential to grow the Company and meet its business targets always recognising the importance of the balance between regulatory capital and making sound business judgements.

Capital Adequacy and ICAAP

CAM's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ("ICAAP") Report.

The ICAAP process includes an assessment of all material risks faced by CAM and the controls in place to identify, manage and mitigate these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by capital, the Company has adopted the new CRD IV reporting requirements for Pillar 1. Where the Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital is added on in Pillar 2.

Whilst the ICAAP is formally reviewed by the Board once a year, Senior Management review risks and the required capital more frequently and will particularly do so when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

Own Funds

The Company is an IFPRU 125k Limited Licence Firm because it does not deal for its own account or underwrite issues on a firm commitment basis. It manages individual portfolios and it holds Client Money and Client Assets. An IFPRU firm must maintain at all times capital resources equal to or in excess of the base requirement (€125,000). The Pillar 1 capital requirement for an IFPRU 125K Limited Licence Firm is set out in Article 95 (2) of the CRR and is the higher of the credit risk capital requirement and the market risk capital requirement, or the Fixed Overheads Requirement ("FOR") (i.e. one quarter of the firm's relevant fixed expenditure multiplied by 12.5). The "Total Risk Exposure Amount" (TREA), which, for our firm, is defined as 12.5 times the FOR is the amount for used for Pillar 1 capital adequacy purposes. CAM has no innovative Tier 1 capital instruments or deductions.

The Company must maintain at all times capital resources equal to or in excess of the Pillar 1 requirement.

During the 12 month accounting period to 30th September 2016, the Company complied fully with all capital requirements and operated well within regulatory requirements. At the accounting reference date, the Company held the following capital position:

Ordinary share capital	£77,765
Share Premium	£135,252
Other Reserves	£850,234
Retained earnings	£5,059,350
Regulatory adjustments	-£112,168
CET 1 Capital Resources	£6,010,433
Tier 1 & Tier 2 Capital	Nil
Own Funds	£6,010,433
Total Risk Exposure Amount	£12,211,248
CET 1 and Total Capital Ratio	49.22%
Surplus capital over minimum requirement	£5,033,533

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1. Common Equity Tier 1 capital of 4.5% of TREA. Our minimum requirement based on the above TREA is £549,506 and we currently have a Common Equity Tier 1 capital amount of £6,010,433 (49.22% of TREA);

2. Tier 1 capital of 6% of TREA. Our minimum requirement based on the above TREA is £732,675 and we currently hold a Tier 1 capital amount of £6,010,433 (49.22% of TREA);

3. Total capital (Own Funds) of 8% of TREA. Our minimum requirement based on the above TREA is £976,900 and we currently hold Own Funds of £6,010,433 (49.22% of TREA).

The Board are therefore comfortable that the Company is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Company holds approximately £5.77m in cash and cash equivalents as at year end which the Board is comfortable will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The Board constantly monitors the performance of the Company and capital adequacy is assessed at the monthly Board meetings and future liquidity aspects at the quarterly Treasury Policy Committee meetings. The Risk Committee and the Board will constantly monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the Pillar 1 requirements are detailed below and, where necessary, additional capital is provided.

Market risks

CAM is exposed to the following primary risk factors:

- Liquidity risk
- Market Risk
- Investment Performance
- Economic Risk

Other risks are reviewed on an ongoing basis by the directors but are either not applicable to the Company or the risks involved are not material.

CAM uses a number of approaches to managing its exposure to the financial risks arising from its operations. The Company's financial assets consist of bank deposits and short term receivables.

CAM does not use derivative based instruments to effect risk management of its balance sheet and liquidity.

Liquidity risk

Liquidity risk is the risk that CAM will not have adequate cash flow to meet its operating expenses and other liabilities when they fall due.

CAM's policy is to ensure that it holds surplus cash resources in excess of regulatory capital adequacy in order to meet both current and foreseeable liquidity requirements.

Market, Investment Performance and Economic Risk

Market risk can be broadly defined as the risk of losses in the balance sheet positions arising from downward movements in market prices. CAM's fee income is affected directly by the value of the Funds under Management ("FUM"). Market price risks arise from fluctuations in the value of financial instruments due to changes in market values other than those arising from interest rate or currency risk. CAM does not hold equity instruments on its balance sheet and is therefore not directly exposed to such risks. However, the assets held for clients, on which management fees are based, are exposed to such risks. CAM can, from time to time, hold short dated high quality fixed income instruments on its balance sheet to complement the return on its cash resources. Whilst this does represent a risk, it is not a material risk given the amount held in these securities is never more than 50% of the available cash/liquid resources of the firm.

CAM reviews the market risks and the likelihood of market falls across the FUM on a monthly basis. Where required, steps are then taken to restructure and reposition portfolios to minimise or eliminate any potential risks. The Research Director takes responsibility for key aspects of the asset allocation and stock selection processes.

Other Related Market Risks

Interest Rate Risk
CAM is not a bank or financial institution. Therefore it is not directly dependent on interest income. However, CAM does earn interest from the investment of surplus corporate funds and it also derives interest income on certain client balances. Therefore, any rise or fall in interest rates will affect profit margins but this is not considered to be critical to the overall profitability of the Company.

Foreign exchange risk
CAM does not have a material volume of foreign exchange related transaction activity and therefore the Company is not materially exposed to this risk.

Credit Risk
Credit risk is broadly defined as the possible loss due to debtors' non-payment of loans, services or goods supplied. CAM's income on management fees and third party commissions are on a cash basis taken from client's accounts and do not represent a material risk. A very small portion of income is derived from invoiced services, primarily generated by the financial planning team, where the credit risk is not material. Credit risk also covers the default risks of institutional counterparties with whom the firm deals. CAM's exposure to credit risk results from institutions with whom the Company places its corporate cash and the settlement of market transactions. CAM continually reviews its corporate cash balances and the counterparties with whom it is placed in order to ensure diversification and sufficient capital strength of the depository bank. All business is conducted in the UK and transactions are executed on a DVP or current settlement basis. CAM does not therefore have any long term exposures. CAM has used the standardised method of calculating Credit risk under the new COREP reporting. The output of this plus any market risk is lower than the FOR which has been used for the purposes of Pillar 1.

Operational Risk

Operational risk is defined as the loss resulting from inadequate or failed internal processes, people and systems or from external events. These risks arise from failures or weaknesses in the internal systems and controls operated by CAM, including those which rely upon computer systems. CAM maintains a series of procedures and policies to mitigate operational risk and monitors these systems both through its management control and reporting processes and through its independent compliance function.

Operationally, CAM is also exposed to the following risks:

- People
- Regulatory
- Technology
- Social and Environmental

People

The business is heavily dependent on people. CAM ensures it employs people with the necessary skill sets appropriate for the business needs which require recruitment and development. To mitigate this risk there are competitive remuneration plans and deferred benefits targeted at these key employees. At all times, such arrangements are implemented in accordance with SYCS 19.

Plans also include retaining key employees while planning the loss of staff through leaving or redundancy. While neither is an ideal option, training and procedures ensure that such loss can be met and managed by departments without disruption to the business.

Regulatory

Regulatory risk involves the loss arising from the failure to meet regulatory requirements in those jurisdictions in which CAM operates. The financial services sector is heavily regulated and breaches lead to fines or disciplinary action both for the Company and for individual staff. The Risk and Compliance function supports the business to meet such obligations. They closely monitor actual and planned changes in regulation to ensure ongoing compliance with regulatory standards and to this end the Company is assisted by professional consultants. The Company carries professional indemnity cover in excess of the minimum FCA requirement. Amongst day to day oversight of regulatory impacting matters, the Risk and Compliance Committee meets on a weekly basis to assess the risks and compliance related topics that the Company and the industry faces. Some of the major strategic areas such as Conduct, Governance, Financial Crime, Systems and Controls are also key areas that are overseen by the Board and the Risk and Compliance team. Staff receive training to address the key areas in the regulatory field.

Technology

CAM is reliant on technology to maintain its infrastructure. The technology is partly outsourced and also uses well-established and tested technology.

Significant investment has been made in core IT systems over the last few years as part of a strategy of upgrading and strengthening procedures and management information. This was also enhanced by the engagement of an external party as our IT consultants and advisers and provider of the Company's Business Continuity Plan ("BCP").

Social and Environmental

Social unrest may close parts of London due to strike and riots or one off events such as an international sporting competition. Environmental risk, such as snow, fire and flood, may mean that personnel have trouble getting into the office. Both these risks create a significant threat to the business function.

CAM mitigates these risks with a Business Continuity Plan that ensures the business will operate by leveraging a remote framework of access and ongoing client support. The BCP Committee ensures the business will operate by leveraging a remote framework of access and ongoing client support. The BCP Committee reviews, upgrades and tests this plan on a regular basis.

Business Risks

The FCA define business risk as those risks that arise from the fluctuations in the business cycle and economic conditions. Any deterioration in business or economic conditions could require a firm to increase capital or alternatively to contract its business at a time when market conditions are most unfavourable to raising capital.
Additional business risks which have been considered by the Directors are:

- Bank counter party risk
- Trading counter party risk
- Physical disaster risk

Non-financial risks

Non-financial risks are the risks that pose a threat to the successful functioning of the business. However, with careful monitoring and planning the impact does not suggest immediate financial exposure.
The material non-financial risks faced by CAM are as follows:

Technical

Technical risk is described as an external advance rendering the IT system inoperable. This includes global virus and hackers. The IT team constantly monitor the security system to ensure threats are identified and deal with issues that compromise our ability to operate. The use of external IT consultants means that we have permanent access to expertise in the event of a serious issue. More specific technical risks are mitigated through technology/operational risk management.

Political

A change in regime and political party can result in changes to local tax rates, investments attractiveness and other challenges. CAM's staff stay abreast of current tax guidance and political commentary to ensure that the Company is able to anticipate and plan for changes in the background.

Legal Risk
This risk is the failure to comply with laws, regulations, rules and standard codes of conduct. CAM relies on its employees to carefully consider the obligations it assumes and to comply with them and any relevant policies. The Company has retained legal counsel and external compliance consultants to provide advice where appropriate.

Distribution
Distribution risks arise from relationship management and concentration across different distribution channels and products. A broad range of distribution changes mitigate against a key dependency on any sales channel.

Competition risk
There is a risk of losing clients due to poor performance or poor communication. These events can be triggered by failure to change along with market, the loss of key investment professionals, and poor training.

CAM has a policy of recruiting high quality staff and regularly reviews remuneration practices to ensure continuing competitiveness in order to maintain and motivate individuals.

Reputational risk
In managing a business which relies upon the continuing full trust of its clients, risk to the reputation of CAM is seen as fundamentally important. Such risk can arise from poor performance or communication or from external public criticism or regulatory censure. The impact of such factors can be material in that a loss of clients will affect profitability as well as make it more difficult to attract new clients. In order to mitigate such risks the management maintains a high degree of oversight over CAM's activities and is backed up in its efforts by a Risk and Compliance function which reports directly to the Chief Executive Officer.

Risks which do not apply to CAM

The following risks do not affect CAM and are not reported upon:

- Insurance risk
- Securitisation risk
- Pension obligation risk

Summary

In conclusion, the Directors consider their analysis in accordance with ICAAP results in the following additional capital provisions:

Operational Risk	£250k
Residual Risk	£50k

This £300k provision is in addition to the £977k Pillar 1 calculation (25% of FOR) resulting in £1.277m of capital required. Given that the Company has funds of £6,010,433, this is still an excess buffer of 371%.

The Directors therefore conclude that the Company is adequately capitalised to take account of all the risks that it faces.

Remuneration Policy

CAM follows the prescribed FCA guidelines and is classified as a level 3 firm from proportionality within SYSC 19 Remuneration Code with regard to remuneration policies and its disclosures relative to the size of the Company. Remuneration is designed to ensure that the firm does not encourage excessive risk taking and staff interests are aligned with those of the clients.

The Board, as the Remuneration Committee, is directly responsible for the overall remuneration policy which is reviewed annually. The Company does not employ external remuneration advisers. Variable remuneration is adjusted in line with capital and liquidity requirements as well as the firm's performance. The Board will review the remuneration strategy on an annual basis together with the Code Staff.

CAM ensures that its remuneration structure promotes effective risk management and balances the fixed and variable remuneration components for all Code and Non-Code staff. Total Remuneration is based on balancing both financial and non-financial indicators together with the performance of the firm and the staff member's business unit. The firm will monitor the fixed to variable compensation to ensure SYSC 19 is adhered to with respect to Total Compensation where applicable.

In addition to basic salary, CAM operates three reward schemes:

- A discretionary annual bonus linked to performance but subject to profitability and cash reserves as well as linked to performance of the firm and the individual
- A discretionary share option scheme where vesting cannot occur until after 3 years
- A commission incentive scheme for staff in the business development department

Department	Total Remuneration 2016
Investment Management	£1,514,237
Financial Planning	£321,721
Senior Management and Other	£1,459,225
Total	**£3,295,183**

Code Staff Remuneration

Senior management and members of staff whose actions have a material impact on the risk profile of CAM and are classified as Code Staff. No staff have aggregate remuneration over £500,000 p.a. The below table shows the number of Code Staff in each business unit as at the financial year end.

Sector	No of Code Staff
Investment Management	8
Financial Planning	3
Senior Management & Other	12

Number of Staff	Total Remuneration
23	£1,895,156

Of which:

Fixed Remuneration (including BIK and Pension Contributions)	£1,408,524
Variable Remuneration (including value of share option grants)	£486,633

CAM adheres to the principles of the FCA's Remuneration Code and ensures the required disclosures are made on our website. Further information about CAM's compliance with the Remuneration Code is available on request.