N+1 SINGER

Nplus1 Singer Limited
Pillar III Disclosures
December 2016

1. Overview

Background

The Capital Requirements Directive ("CRD IV") sets out the regulatory capital framework for implementing Basel III in the European Union. CRD IV is underpinned by three pillars and is overseen in the UK by the Financial Conduct Authority ("FCA") through the Prudential Sourcebook for investment firms ("IFPRU") and the Capital Requirements Regulation ("CRR") together with additional standards and guidelines released by the European Banking Authority ("EBA"). Basel III sets out certain capital adequacy requirements, standards and disclosure requirements to be implemented by regulated firms. CRD IV consists of three pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk that a Firm is required to hold in order to support its business activities;
- Pillar 2 requires a Firm to assess whether its Pillar one requirement is adequate and if additional capital is necessary to withstand the Firm's risks. This process is documented in an Internal Capital Adequacy Assessment Process ("ICAAP"); and
- Pillar 3 requires the disclosure of a Firms capital, remuneration, risk exposures and risk management controls.

Scope, Basis and frequency of disclosure

The N+1 Singer Group ("N1S" or "the Group") contains two separate legal entities which are regulated by the FCA, Nplus1 Singer Capital Markets Limited ("SCM") and Nplus1 Singer Advisory LLP ("LLP"). Both of these entities are registered with the FCA under the FRN 453676 and 568323, respectively. The relevant disclosure requirements of Pillar 3 are embedded into a combination of IFPRU, CRR and associated guidelines issued by the FCA together with additional standards and guidance released by the European Banking Authority.

These disclosures are not subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements and should not be relied upon in making judgements about the Group.

Disclosures are made at least annually and are published in accordance with the Group's Annual Report and accounts. N1S has an accounting reference date of 31 December and these disclosures are made as at 31 December 2016.

These disclosures are published on the N+1 Singer corporate website (www.n1singer.com).

2. Risk Management Governance

Risk Management Framework

The Group's overall strategy and risk appetite is decided upon by the Board. Effective risk management is central to the corporate governance of the Group and the achievement of its strategic objectives while remaining within its risk appetite. The firm recognises that there are risks inherent in all processes, systems and people involved in meeting such objectives and that on-going and efficient management of risk is a key component of its Risk Management Framework.

The Group has established a framework of internal controls for the management of risk within its businesses with the Board having overall responsibility for reviewing their effectiveness. N1S allocates responsibilities and specific roles to specified committees, employees and senior managers for the management of risk within an overall framework and strategy set by the Board.

Internal Capital Adequacy Assessment Process

The Group employs an Internal Capital Adequacy Assessment Process (ICAAP), approved by the Board, which documents management's assessment of the risk profile of the business and the resulting, internally assessed, capital requirements. This process seeks to ensure that the risk profile of the Firm is assessed for all known material risk exposures faced by the Firm, taking into account all relevant mitigants and controls in place. Stress testing is incorporated into this process to assess the Firm's exposure to extreme events and to ensure that appropriate management actions and mitigating plans are in place. The Firm's Recovery and Resolution plan has been prepared in accordance with IFPRU 11 and lodged with the FCA. The residual risk is mitigated by setting aside sufficient capital to meet the potential impact of the combined residual risk exposures.

Key Risks

Key risks are set out in the Group's Annual Report and Accounts and ICAAP. The ICAAP document accesses the capital required to meet potential unexpected losses arising from a number of risk factors which the Board considers acceptable in the pursuit of its business strategy. Scenario analysis and stress testing are also performed to access the Group's exposure to extreme events and to ensure that appropriate mitigation plans are in place. The ICAAP is reviewed and updated annually, unless there are any significant changes in the control environment or other events that warrant a more immediate update. When performing the annual update the Board reviews the stated risk appetite and compares it against actual performance. It will also request the recalculation of the stress tests if they are no longer viewed as appropriate for the business considering developments within the business or the prevailing environment in which it operates.

Business Risk and Strategic Risk

The Group's overall strategy is decided upon by the Board. Day to day strategy and the implementation of this carried out by the CEO and the Management Committee. In order to mitigate business and strategic risk, careful consideration is given to all strategic decisions. All available information is reviewed and discussed by the Board and the Management Committee where appropriate. Any new product or business line will include a thorough assessment of all potential risks, financial or operational, and the systems necessary to minimise these risks. In addition, regular updates are provided to highlight divergence (good and bad) from original plan (strategic, operational and financial).

The Group's business as a stockbroker means it is susceptible to changes in the environment in which it operates. In order to maintain agility and be able to react to events and factors as they evolve, certain decisions must be made quickly. Reporting and decision making lines are very clear within the Group hence decisions, if required, can be made at a speed necessary to mitigate risk.

The Group's Business Continuity plans are regularly reviewed and updated in order to address the decisions which would have to be made in situations which would arise as a result of Strategic risk.

Credit Risk

Due to the nature of the Group's business credit risk is a less significant risk than some other risks the business faces. The key credit risks faced by the Group are as follows:

- Non-payment of retainer income receivables;
- Non-payment of transaction income receivables;
- Clients' defaults on agreements;
- Goods and services paid for but not received; and
- Adverse events to institutions where the Group's capital is held on deposit

Settlement risk is a sub-category of Credit risk and addresses the trading book element where the key risk is the non-settlement of a trade. There are however, controls in place to ensure that this does not occur, and, if it does, it has no material impact on the Group.

The vast majority of trades entered into by the Group are on a delivery versus payment ("DVP") basis thereby reducing the risk of non-settlement considerably. This is because DVP requires both parties to the settlement to match the trade details and be in place for the agreed settlement date. If they are not, the trade will not settle and the non-defaulting party is not "out of pocket". Over 97% of trades settle through CREST.

A large portion of N1S DVP trades are centrally cleared via London Clearing House (LCH). All LCH trades are fully margined and secured by the General Clearing Member in the instance of default by either party to the trade.

Market Risk

By the very nature of N1S's business, this is one of the most significant risks to which the Group is exposed. There are two elements of market risk which N1S faces, namely position risk and foreign exchange risk (primarily through holding foreign currency cash balances). The former is the most significant considering the portfolio of investments and trading positions held by the Group.

The key market risks faced by the Group are as follows:

- An adverse movement in the stock market ("equity risk"); and
- An adverse movement in a particular stock to which the Group is exposed ("stock specific risk").

N1S sets market risk limits per book and per stock which are monitored on an on-going basis.

Counterparty Risk

Counterparty risk is the potential loss N1S would incur is a counterparty fails to settle under its contractual obligations. In the ordinary course of business counterparty risk is relatively limited because securities trading activity is settled on a delivery versus payment ("DVP") basis through Crest. Unsettled trades are subject to a greater degree of risk which increases as the overdue period increases. Cash deposits are held with large UK based commercial clearing banks with suitable credit ratings.

Counterparty exposures relating to securities trading are monitored throughout the day and at the end of the day for formal reporting purpose. The exposures are measured against limits which are derived from counterparty categorisation and their perceived creditworthiness based on available market data. The reporting ranks the exposures by counterparty and by limit; in addition it highlights any exposures that might exist over the trade date + 5 days. Limit excesses and near limit positions are highlighted daily for follow-up action. All new counterparties go through a formal review process by the Compliance department before an account is opened. The creditworthiness of counterparties is reviewed on a regular basis and limits adjusted as required.

Liquidity Risk

Liquidity risk is the risk that funds are either not available to service day-to-day funding requirements or are only available at a high cost or need to be arranged at a time when market conditions are unfavourable and consequently terms are onerous. Liquidity risk affects the Group at various levels, from the requirement to have sufficient funds to settle its daily and short-term liabilities as they fall due, to that for the funding required for longer-term strategic plans. With net assets of less than £50 million the Group is an exempt full scope IFPRU firm under the provisions of BIPRU 12.1.4(1).

The Group has always aimed to maintain excess liquid resources over its cash requirements. The firm reviews its liquidity requirements and cash flows on a daily basis and takes appropriate actions to ensure contingency is in place should it be required.

Operational Risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. The Group seeks to mitigate operational risk by maintaining appropriate controls in the form of experienced staff, clear segregation of duties and clear methods for escalation. Outsourced relationships are closely monitored to ensure adherence to contractual obligations and service levels whilst business continuity plans are in place and are subject to periodic review and testing. The Board sets the tone of the business by demanding a strong, ethical and professional culture as the only acceptable standard for the Firm.

This risk category includes a number of sub-operational risk categories. The Group's systems and controls, policies and procedures have been structured to meet any undue exposure (financial and otherwise) the Group would face should any of these risks materialise.

The following list is not exhaustive but details the key operational risks faced by the Group:

- Reputational Risk - detrimental effects on the Group's reputation within the industry;
- Legal and Compliance Risk – litigation against the Group or the failure to comply with regulation and laws;
- IT Risk - resulting from inadequate or failing internal systems;
- People Risk - loss of key staff or the deliberate/negligent failure to perform control processes;
- Outsourcing Risk - failure or default of one of the Group's key outsourcers;
- External Risk - catastrophic natural or man-made events which impact or prevent business continuity; and
- Internal and Fraud – deliberate deception (abuse of position or false representation)

Reputational Risk

Reputational risk is viewed more as a cost than a risk. It is inherent within all, if not most, of the other risk categories, as it is what results if one of the other risks actually becomes reality. The only variable would be the quantitative element of the cost, as it may cost the Group more to re-establish its reputation in one scenario compared to another.

Reputation is difficult to grow but very easy to lose, which underlines the importance of having to mitigate this risk. Therefore, the Group strives to act in a professional and honest manner at all times and maintain good relationships with its clients or potential clients and also other third parties in the industry including competitors, lawyers, accountants and regulators and to act in a professional and honest manner at all times. This is a key part of the Group's culture.

Should a complaint arise, the Group responds as quickly and professionally as possible. The Compliance Department engages with the person(s) involved and will use recorded phone calls to confirm the validity of the complaints. The Board are informed of any complaints received and the progress of these.

The Group places great emphasis on employing highly experienced senior staff who are closely engaged with clients.

Legal and Compliance Risk

With the increasing legal and regulatory driven environment for the financial services industry and business as whole, this is an important risk which needs to be addressed on an on-going basis by the Group. As a result, all efforts are made to ensure that all such legislation is adhered to and any requirements met.

The key Legal and Compliance risks include the following:

- Legal action against the Group;
- Enforcement/Financial Crime risk;
- Fraudulent activity;
- Non-compliance with regulations and laws and Group policies and procedures;

- Regulatory integration of new policies and requirements; and
- Adherence to internal policies

There are rigorous controls in place in order to minimise this type of risk.

IT Risk

The core business of the Group is IT driven, from the front office trading system, to the back office settlement system. As a result, the key risk is the failure of part, if not the whole, of the Group's IT infrastructure. Core IT systems fall into 2 categories: hosted solutions and in-house systems. Hosted solutions are provided on a contract basis and are only entered into after thorough due diligence and reliance is placed on vendor internal controls. This type of risk therefore also forms part of legal risk in the event of an issue that impacts the Group's operations. Where possible the Group's in-house IT hardware/software is "off the shelf" solutions provided by mainstream developers or resellers. In house systems pose direct IT risk. To mitigate this, the Group has established and implemented a number of comprehensive systems and controls.

Back-ups of all systems are made at the end of every business day and stored at an off-site location. These can then be used when any lost information needs to be restored due to a failure in the live system. In addition, the Group has a comprehensive business continuity plan which employs the use of a disaster recovery site.

People Risk

Retaining, attracting and developing key staff is essential to the long-term success of the business. The Group aims to employ and retain suitable qualified staff. It complies with Employment Law and where there is no governing legislation it operates in accordance with best practice.

All key people and roles are assessed and monitored to ensure business continuity is maintained. Performance is reviewed against targets and appropriate structures are maintained in order to try to ensure adequate succession planning. In addition, through the Remuneration Committee, we seek to ensure that the personnel identified as key are provided with appropriate compensation packages.

Similarly the Remuneration Committee seek to ensure that "Code" staff (i.e. those employees to whom all the principles of the FCA Remuneration Code apply) and other staff are remunerated on a basis consistent with the guidelines of the FCA.

Further information on the Remuneration Committee and its function within the Group can be found below under section 4.

3. Capital Resources and Requirements

Capital Adequacy

In order to protect N1S's solvency, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite, the material risks to which it is exposed and the appropriate management strategies for each of its material risks, including whether or not capital provides an appropriate mitigant. Regulatory Capital is reported in the management accounts, so the Board is aware of any movements in this requirement on a monthly basis. The following table summarises the Group's capital resources and capital requirements as at 31 March 2017 as submitted via the COREP reporting regime

	Mar 2017 £'000
Permanent Share Capital	16,392
Retained earnings brought forward (audited)	8,905
Dividend declared during the year	(4,554)
Common Equity Tier 1 capital/Pillar 1 Regulatory Capital Resources	**20,743**
Regulatory Capital Requirement	
Market Risk	1,025
Credit Risk	463
Settlement Risk	52
Operational Risk	4,212
Total Pillar 1 Regulatory Capital Requirement	**5,752**
Surplus Capital (Pillar 1)	**15,001**
Total Risk Weighted Exposure	**71,899**
Tier 1 Capital Ratio	**28%**

4. Remuneration

Remuneration

The following disclosures are in accordance with Article 450 of the Capital Requirements Regulation and the FCA's Remuneration Code SYSC 19A (the "Remuneration Code" or "Code"). The Group is required to establish and apply policies which comply with the Code in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activates. The Group has been classified as a Tier 3 Firm for the purpose of the Remuneration Code. The following disclosures reflect the requirements for such Tier 3 firms.

The Remuneration Committee

The Group's Remuneration Committee, consisting of non-executive directors, operates under delegated authority from the Board and oversees the implementation of the Remuneration Code. The Remuneration Committee assesses whether remuneration decisions have adequately taken into account the implications for risk and the risk management of the firm, the long term interests of shareholders, investors and other stakeholders and the management of any conflicts of interest. The Remuneration Committee is responsible for determining the firm's policy on remuneration. The key objectives of the policy are (a) to ensure that rewards and incentives are aligned with the interests of shareholders in order to optimise the long term performance of the Firm within acceptable risk parameters and regulatory frameworks and (b) to provide the level of remuneration required to attract, retain, and motivate employees of an appropriate calibre. The Remuneration Committee met four times during the year ended 31 December 2016.

Identification of Code Staff

The Group has given careful consideration to the guidance of the FCA as contained in its Remuneration Code. Code staff are those individuals who perform roles which have a material impact on the Group's risk profile. This includes:

- Executive and Non-Executive Directors and Senior management;
- Material risk takers in business management roles;
- Employees in management control function roles; and
- Employees who are remunerated in excess of Senior Management and Material Risk Takers.

The link between pay and performance

Remuneration comprises a fixed and a variable component.

Fixed remuneration, comprising principally of base salaries, is determined by the position held by and the responsibility of each employee, length of service in that position, the experience of the employee and local market salary practices for identical positions in similar financial institutions.

The overall compensation mix takes into account cash available for distribution, the competitive environment and the capital position of the firm – this is always subject to the approval of the Remuneration Committee.

On an annual basis, an individual's performance is assessed, including self-appraisal, colleague feedback and manager appraisal. Assessment is based on all aspects of an individual's contribution to the firm including financial performance, business development and non-financial metrics (such as attitude to compliance and risk, teamwork and broader contributions to the Group).

N+1 SCM's business focuses on corporate advisory and trading in cash equities, with no "long tail" risk and therefore little scope for exaggeration of performance. In awarding bonuses to staff management takes into consideration past, current, and expected future performance.

Staff are therefore exposed to the firm's overall performance and paid dependent on their individual performance.

Quantitative Disclosure

The Group is required to disclose aggregate quantitative remuneration for its Code staff for the year ending 31 December 2016 split between fixed and variable compensation. This included delayed remuneration which was paid in March 2017.

	2016 £'000	**2015 £'000**	**2014 £'000**
Fixed Compensation	1,048	1,015	1,173
Variable Compensation	1,458	1,241	2,819
Total Compensation	**2,506**	**2,256**	**3,992**
Number of Code Staff	**14**	**14**	**15**