Shore Capital Group Limited

Annual Report and Financial Statements

Year ended 31 December 2018

Annual Report and Financial Statements for the year ended 31 December 2018

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Officers and Professional Advisers

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Howard Shore (Chairman)
Lynn Bruce
Simon Fine
David Kaye
Dr Zvi Marom*
James Rosenwald III *

*Non-executive

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Chairman's Statement

Introduction

During 2018, the Group continued to grow revenues, allowing for further investment in both of the Group's main operating divisions and positioning us to capture market share as sentiment improves. As global investment banks and mainstream providers continue to retreat from the UK market, the targeted investments we have made will enable us to grow the strength and size of our financial services franchise.

Group revenue for the year increased by 3.4% to £43.3 million (2017: £41.9 million), whilst profit before tax decreased by 11.1% to £4.1 million (2017: £4.6 million), driven by an 8.4% increase in administrative expenses to £38.9 million (2017: £35.9 million), reflecting our investment in the business. Basic earnings per share were marginally lower at 12.6p (2017: 13.1p).

The most important development in the Capital Markets division came after the year end with the acquisition of Stockdale Securities Limited, which is expected to complete on 31 March 2019. The acquisition will create London's fourth largest adviser to quoted businesses, unlocking exciting new opportunities. Stockdale's clients and expertise complement and enhance our existing activities and the combined business will have a quality, strength and scale which we believe clients and investors will find compelling.

During the year, the Capital Markets division grew income from corporate mandates and transactions and continued to add to its high-quality retained client base. The business has performed robustly through the year, developing its integrated offering and maintaining high levels of market activity. New retained clients included a further FTSE 100, Marks and Spencer Group Plc, and FTSE 250 Sirius Minerals plc. The team advised on five new admissions, 18 secondary fundraisings and three public takeovers, including the reverse takeover and acquisition of a majority interest in Welcome Break by Applegreen plc, raising €175 million; and the £198 million placing of stock in FTSE 100 GVC Holdings plc on behalf of Playtech plc.

We have continued to build our equity research coverage, underscoring our strong sector credentials, focusing primarily on growth companies in the UK & Ireland and expanding into the Industrials sector. In addition, we developed our response to the cross-sector impact of evolving digital technologies, with new coverage of technology, digital media, online retailing and disruptive innovations.

Our Market Making activities were impacted by tough trading conditions in the fourth quarter of 2018, but nevertheless remained profitable throughout the period. Overall the Market Making business achieved a solid, profitable performance for the year, albeit on lower revenues. The continued strength and reputation of this business is driven by its strong management and expert team, demonstrating that even in difficult conditions it is able to deliver profits whilst carefully managing risk.

In Asset Management we maintained the momentum achieved in previous years, developing exciting new opportunities for investors to grow revenues, profits and assets under management, with overall AUM growing 6.4% to £920 million.

Chairman's Statement

Introduction (continued)

Puma Investments has developed its platform focus on private equity, property finance and listed equities. Earlier investments in new expertise and distribution capabilities have enabled the business to anticipate changing market conditions and attract a significant institutional partner. In the fourth quarter of 2018 the division secured a £200 million funding line for its property finance business from RoundShield Partners LLP ("RoundShield"), a European private equity house.

Puma Private Equity continued to attract retail investment funds, with the latest Puma VCT 13 closing early due to high demand. It has now deployed over 30% of its capital. Our EIS service, Puma Alpha, has attracted over £70 million.

Puma Property Finance gained significant ground during the year following its agreement with funds advised by RoundShield to provide £200 million for new finance opportunities. Alongside this institutional money, the diversified Puma Heritage property finance business continued to attract funds, growing to approximately £75 million during the year from a combination of lending returns and additional subscriptions.

In Listed Equities, the Puma AIM IHT Service was Highly Commended at the 2018/19 Investment Week Tax Efficiency Awards. Assets under management, reached £24 million during the year, driven by its availability on the Ascentric, Standard Life and Transact platforms.

During the year we also acquired a majority stake in a company investing in property in the social care sector. We have an exciting pipeline of opportunities in this space and are optimistic about prospects for further revenues from this sector.

In the Institutional asset management business, the Group has continued to assist Brandenburg Realty and Puma Brandenburg to implement their strategies. The Group has supported initiatives to renovate and generate income from assets, transact commercial and residential properties and strengthen relationships with tenants.

Given our recent expansion and together with the Stockdale acquisition, it became clear that we required new premises for our London operations. We recently entered into a lease for new offices at Cassini House, St James's Street, taking the fourth and fifth floors comprising 13,700 sq ft. This will both accommodate current and future expansion plans and we believe enable a more modern and flexible work environment.

With respect to DBD, it has now been concluded that the 32 German regional radio spectrum licences that DBD holds shall be reallocated from the 3.5 GHz frequency band to the 3.700-3.730 GHz frequency band at no cost, on a "flexibilised" basis, meaning without historic technical restrictions limiting their usage, and continue to be for perpetual duration. The flexibilisation will enable their use for modern services such as 4G and 5G. We are confident of the future prospects for DBD's business and the value that can accrete from it.

Financial Review (continued)

Income and expenditure

Revenue for the year increased by 3.4% to £43.3 million (2017: £41.9 million), whilst administrative expenses increased by 8.4% to £38.9 million (2017: £35.9 million). Group profit before tax decreased by 11.1% to £4.1 million (2017: £4.6 million).

Revenue from Capital Markets decreased by 6.5% to £25.5 million (2017: £27.2 million) and divisional profit before tax declined 21.9% to £4.1 million (2017: £5.2 million) with a net margin of 15.9% (2017: 19.1%).

Revenue from Asset Management grew by 22.8% to £15.8 million (2017: £12.9 million) and divisional profit before tax increased 5.5% to £3.2 million (2017: £3.0 million) generating a net margin of 20.0% (2017: 23.3%).

The Principal Finance division recorded a pre-tax loss of £1.5 million (2017: £2.0 million loss).

Basic Earnings per Share

The Group generated earnings per share of 12.6p (2017: 13.1p).

Liquidity

The Group maintained a strong liquidity position enabling it to undertake a range of transactions as opportunities arise in the near term. As at the balance sheet date, available liquidity was £33.8 million, comprising cash of £31.0 million (2017: £35.7 million) and £2.8 million of gilts and bonds (2017: £8.8 million). The Group also had a £20 million working capital facility which was unused at the year end.

Balance sheet

The Group's balance sheet remains strong. Total equity at the year end was £68.1 million (2017: £67.2 million) reflecting the profit generated in the year, offset by dividends paid.

In addition to the £31.0 million of cash and £2.8 million of gilts and bonds referred to above, £6.8 million was held in funds advised by the Group; £3.6 million net in quoted equities and a further £1.3 million in other unquoted holdings. The licences held as part of the Group's Spectrum Investments were carried at a cost of £2.3 million on a gross basis, before allowing for minority interests.

The remainder of the balance sheet was £20.3 million net, which included £11.9 million of net market and other debtors in the Company's stockbroking subsidiary.

Net Asset Value per Share

Net asset value per share at the year end was 269.4p (2017: 270.0p).

Dividend

The Board proposes a final dividend of 5.0p per share (2017: 5.0p) making a total for the year of 10.0p per share (2017: 10.0p). The dividend will be paid on Wednesday 24 April 2019 to shareholders on the register as at Friday 5 April 2019.

Operating review

Capital Markets

Overview

During the year the Capital Markets business has proved robust in an environment characterised by substantial political uncertainty and significant global economic headwinds.

Revenues were 6.5% lower than the prior year, predominantly resulting from difficult market conditions in the final quarter of 2018. In that context, it has been enormously encouraging that income from corporate mandates and transactions has grown year-on-year, reflecting our sustained investment in the business. We also grew the retained client base, a particular highlight being the addition of our second FTSE 100 broking client, Marks and Spencer Group Plc.

We have worked carefully to ensure that the business is well-positioned to take advantage of market opportunities. As such, after the year end in February 2019, we were delighted to announce the acquisition of Stockdale Securities Limited, which is expected to complete on 31 March 2019. The combination of the two businesses is compelling in that it unites complementary businesses and enhances our existing operations, adding scale, expertise and diversity to the Capital Markets division.

Corporate Broking and Advisory

During 2018, we have continued to be very active and advised on five admissions consisting of two IPOs and three reverse takeovers. In the year under review Shore Capital undertook 18 secondary fundraisings and advised on three public takeovers. Significant transactions during the year included acting as:

- Nominated Adviser, global co-ordinator and joint bookrunner on the reverse takeover and acquisition of a majority interest in Welcome Break by Applegreen plc, raising €175 million;
- Nominated Adviser sole bookrunner and broker on the IPO of Nucleus Financial Group plc, raising £32.1 million;
- Joint bookrunner on the £198 million placing of stock in FTSE 100 GVC Holdings plc on behalf of Playtech plc;
- Joint bookrunner on the £70 million placing by FTSE 250 Dairy Crest Group plc;
- Nominated Adviser and joint bookrunner the acquisition of Inprova Finance Limited by Inspired Energy plc, raising £19.0 million;
- Joint bookrunner on the £22.5 million placing by Motorpoint Group plc; and
- Lead Manager on the placing and re-admission to AIM of Savannah Petroleum plc, following its acquisition of certain assets from Seven Energy International Limited, raising US$125 million.

Our advisory work included acting as:

- Financial and Rule 3 adviser to Produce Investments plc in relation to its £55.3 million takeover by Promethean Investments LLP;
- Financial and Rule 3 adviser to Zenith Hygiene Group plc in relation to its £100 million takeover by Bain Capital; and
- Financial and Rule 3 adviser to Styles & Wood Group Plc in relation to its £42.5 million takeover by Central Square Holdings Limited.

Operating review (continued)

During the year we added nine new clients including a further FTSE 100 mandate in the form of Marks and Spencer Group Plc, as well as FTSE 250 Sirius Minerals plc.

Research, Idea Generation and Distribution

Through the first year of the MiFID II Directive's implementation, Shore Capital's research and distribution teams remained focused upon producing high-quality independent and issuer sponsored equity research and idea generation, and maintaining high levels of interaction with the market. MiFID II has created significant upheaval and uncertainty for all market participants, changing the way that the industry operates. Notwithstanding this, we are very pleased to have had extensive engagement with the investment community over the year.

We have continued to build our equity research coverage, underscoring our strong sector credentials, focusing primarily on growth companies in the UK & Ireland, with notable additions in the Industrials sector in particular. In addition, we developed our response to the cross-sector impact of evolving digital technologies, with new coverage of technology, digital media, online retailing and disruptive innovations.

Market Making

Our Market Making activities were impacted by tough trading conditions in the fourth quarter of 2018, but nevertheless remained profitable during this period. Overall the Market Making business achieved a solid, profitable performance for the year, albeit on lower revenues. The continued strength and reputation of our business is driven by its strong management and expert team, demonstrating that even in difficult conditions it is able to deliver profits whilst carefully managing risk.

Although clearly sensitive to the macroeconomic environment, we remain focused and adaptable to changing trading conditions and client needs.

Asset Management

Overview

The Asset Management division continued to make significant progress during the year, growing revenues, profits and assets under management. Overall AUM at the year end grew 6.4% to £920 million, (2017: £865 million) driven by fundraising in the Puma Investments operations and increased valuations in our institutional portfolios.

Puma Investments

Overview
Puma Investments, our UK fund management business, enjoyed a strong year in which revenues grew substantially, allowing for further investment into its three focus areas of private equity; property finance; and listed equities. In recent years we have steadily invested in new resources and expertise for the business, resulting in significant growth. The momentum maintained over the past two years

Operating review (continued)

combined with the operational capacity in the business means that we are ideally positioned to take advantage of the opportunities ahead and continue growing the business.

Our potential was endorsed towards the end of 2018 with the agreement of a £200 million institutional funding line for our property finance business.

Puma Private Equity
Puma Private Equity offers retail investors access to tax efficient private equity strategies through our long-standing Venture Capital Trusts ("VCTs") and Enterprise Investment Scheme ("EIS") offerings. We are sector-agnostic and seek to back well-positioned businesses led by high-quality, credible management teams who have the potential and aspiration to deliver material growth.

Since 2005, the Group has raised nearly £240 million for its Puma VCTs and returned over £140 million in dividends to investors. Its latest offer, Puma VCT 13, recently closed early due to high demand. At the time of writing, Puma VCT 13 had deployed over 30% of its funds into qualifying companies.

The Puma Alpha EIS service, ("Puma Alpha") launched in October 2017 and is run by the same experienced team responsible for the Puma VCTs, benefiting from their strong track record and expertise. Fundraising continued successfully throughout the year, increasing funds in Puma Alpha, together with its predecessor Puma EIS, to over £75 million at the time of writing. Puma Alpha has now made five investments, growing the suite of EIS companies in both services to 15.

Puma Property Finance
Puma Property Finance offers investors access to secured, first charge loans, on UK real estate across a range of sectors. The platform provides lending solutions to professional borrowers throughout the lifecycle of property development, via three principal offerings: pre-development bridge loans; development finance; and development exit loans. Transaction sizes typically range from £3 million to £30 million and the team is active across residential, commercial and more specialist areas of real estate, including hotels, student accommodation and healthcare.

For a number of years, Private Client investors have been able to access these activities through an investment into Puma Heritage plc, which utilises its diversified loan book, (totalling over 450 loans to date) to generate regular returns for shareholders intended to counter long-term inflationary pressures. An investment in Puma Heritage is intended to benefit from 100% relief from Inheritance Tax after two years.

The net asset value of Puma Heritage has grown to over £75 million at the time of writing from a combination of lending returns and additional subscriptions. Puma Heritage remains open for investment and has a strong pipeline of loan opportunities to drive future growth.

During the year, we were delighted to agree an institutional funding line of up to £200 million from funds advised by RoundShield Partners LLP and affiliates ("RoundShield") for deployment in our Puma Property Finance business. The RoundShield deal signifies the institutional quality of our real estate activities and enables us to engage with the high level of demand we face for competitively priced development finance as well as investing in our infrastructure and high-quality, experienced lending team.

Operating review (continued)

Listed Equities
The business offers retail investors access to a discretionary equity portfolio service through its Puma AIM IHT Service, (the "AIM Service") which seeks to mitigate Inheritance Tax by investing in a carefully selected portfolio of AIM shares. The AIM Service is particularly attractive for those that wish to utilise these tax advantages whilst also investing within their ISA wrapper. The service has now been running for over four years and has won many awards, most recently being Highly Commended at 2018/19s Investment Week Tax Efficiency Awards.

Despite tough equity markets over the course of 2018, the service continued to grow assets under management, reaching £24 million by December 2018. A significant proportion of our growth was generated as a result of our availability on the Ascentric, Standard Life and Transact platforms. Having grown the team, we now have the capacity to increase the number of platforms through which we can provide our service and aim to add more platform providers during 2019.

Social Care
The business has enjoyed strong revenue generation from its activities in the social care sector, leveraging our many years of experience providing development funding in this area. Our broad range of relationships has enabled us to partner with external funds investing in the supported living sector, where we are providing a holistic service to source, structure and negotiate acquisitions.

During the year, we also invested £800,000 to acquire a majority stake in a company investing in property in the social care sector. We have an exciting pipeline of opportunities and are optimistic about prospects for further revenues from this sector.

Institutional Asset Management

Brandenburg Realty
Brandenburg Realty (the "Fund") continues to seek a range of high-quality real estate opportunities and implement its asset management programme to enhance value creation across the portfolio.

During the year, the Fund took possession of the three Mitte and Prenzlauer Berg assets purchased in December 2017. Since then, the first stage of obtaining condominium title has been completed for each building. Renovation works have been planned and the first furnished apartments have been let. In December 2018 two further assets were notarised with completion expected in the second quarter of 2019.

The team also continues to assist the Fund's implementation of its strategy for the other commercial and residential assets. At the Potsdam assets, a full planning permission to construct c.1,800 sq.m. of new residential space was been secured and both plots were sold to a third party developer at a significant gain. Vacant units in the existing Potsdam residential assets are being renovated and let as furnished apartments. Meanwhile, units in Berlin's Monumentenstrasse continue to be sold at more favourable prices than the underwriting expectations at the time of acquisition.

During the year the team secured debt financing with DKB for a portfolio of four assets including the three Mitte and Prenzlauer Berg assets.

Operating review (continued)

The team continues to assist Mixer Global to identify and evaluate new co-working sites, especially in Germany and the US. During the year, Mixer entered into a lease to open its third site in Israel where construction works are underway, and a fourth site in the centre of Tel Aviv where heads of terms have been agreed.

Puma Brandenburg Limited ("PBL")
During the year, the Group has continued to assist PBL to execute its strategy, including:

- The completion of two new restaurant pavilions at Cologne's Hyatt Regency hotel;
- The conversion of further apartments to add to PBL's pool of furnished apartments that are let out on short term leases; and
- PBL's participation in the Mixer Global investment, as noted above.

St Peter Port Capital ("SPPC")
SPPC announced its results for the half year ended 30 September 2018 on 8 November 2018. As at that date, it had investments in six companies, (excluding companies in the portfolio it had written down to zero).

SPPC realised one small investment which had recently listed on a Canadian stock exchange, generating £96,000 during the year.

Principal Finance

The Principal Finance division seeks to use the Group's balance sheet to invest in attractive opportunities and seed new funds.

Investment in DBD
Shore Capital holds a 59.94% interest in Spectrum Investments Limited, the parent company of DBD. DBD, through a subsidiary, holds 32 regional radio spectrum licences in Germany of perpetual duration (the "Licences").

Following previous updates in respect of communications with the German Telecoms Regulator ("BNetzA"), it has now been concluded that the Licences shall be reallocated from the 3.5 GHz frequency band to the 3.700-3.730 GHz frequency band at no cost. The licences will continue to be for perpetual duration, on a "flexibilised" basis, meaning without historic technical restrictions limiting their usage. The flexibilisation will enable their use for modern services such as 4G and 5G.

We are therefore confident of the future prospects for DBD's business and the value that can accrete from it.

Operating review (continued)

New offices

Since the year end, the Group has entered into a lease for new offices at Cassini House, St James's Street, London, taking the fourth and fifth floors comprising 13,700 sq ft. This will both accommodate current and future expansion plans and we believe enable a more modern and flexible work environment. The move is anticipated for June 2019 and associated one-off costs are expected to be circa £500,000.

Current Trading and Prospects

Whilst not immune to uncertainty in capital markets, we are excited by recent developments in all divisions – Capital Markets, Asset Management and Principal Finance – and are therefore optimistic about the prospects of our diversified business model.

Howard Shore
Chairman
21 March 2019

Board of Directors and Senior Management

Board of Directors

Howard Shore
Chairman
Howard Shore founded Shore Capital in 1985. He began his career in private client discretionary fund management with Grieveson Grant & Co. After obtaining a degree in Economics from Cambridge, he worked as a financial futures broker when LIFFE was being established. As Executive Chairman he is responsible for the strategy of the Group. He is also a director of Puma Brandenburg Limited and Chairman of Spectrum Investments Limited.

Simon Fine
Co-Chief Executive Officer
Simon Fine joined Shore Capital in 2002 as CEO of Shore Capital Markets, responsible for all aspects of trading and brokerage as well as the integration of related corporate broking activities. He is the former Managing Director and Co-Head of Pan European Equity Cash Trading at Lehman Brothers. Prior to that, Simon spent the previous 14 years at Dresdner Kleinwort Benson, latterly as Head of Pan European Equity Cash Trading – developing its UK operations into one of the leading players in the UK and German equities. Simon became Co-CEO of the Shore Capital Group in 2017.

David Kaye
Co-Chief Executive Officer
David Kaye graduated from Oxford University with a degree in law and was called to the Bar in 2000. David practised as a barrister at a leading London set of chambers for five years, specialising in advising on a range of complex commercial legal issues with a particular focus on financial investments and real estate. He joined Shore Capital in January 2006 and having been Commercial Director and General Counsel for the Group, he became CEO of the asset management division in 2012. David became Co-CEO of the Shore Capital Group in 2017.

Lynn Bruce
Director
Lynn Bruce is a Chartered Accountant (Scotland) having trained at KPMG, London and has a BSc Hons in Business Mathematics and Accountancy from Dundee University. She was the CFO of an international wealth management group, Stenham Limited, for 11 years where she was also a member of both their Risk and Audit Committees. Prior to that she was the Financial Controller at AT&T Capital Europe. She chairs the Audit Committee and is a member of the Remuneration Committee.

Zvi Marom
Non-executive Director
Dr Marom is founder and CEO of BATM Advanced Communications Limited. A former first lieutenant in the Israeli Navy, he graduated first (with excellence) in electronics from the Naval Academy and first (with excellence) from the Advanced Naval Command Course. He has a post-graduate degree in medicine from the Sackler School of Medicine, Israel and an MSc in industrial electronics. Dr Marom is on the boards of several national and international academic committees for computing and communications. He has close links with Governmental bodies funding research for Israeli high tech companies. He is a member of the Audit Committee and the Remuneration Committee. Since 2017 Dr. Marom is the Chairman of the Board of the Israeli Hi-Tech & Innovation Industries Association of the Manufacturers' Association of Israel.

Board of Directors and Senior Management

James Rosenwald III
Non-executive Director
James Rosenwald is a co-founder and the managing partner of Dalton Investments, LLC, an asset management company. He has more than thirty five years' experience investing in the Pacific Rim. He formerly co-managed Rosenwald, Roditi & Company Ltd. which he founded in 1992 with Nicholas Roditi. James advised a number of Soros Group funds between 1992 and 1998. He commenced his investment career with the Grace Family of the United States at their securities firm Sterling Grace & Co. He is a CFA charter holder and a director of numerous investment funds. He is a member of the Los Angeles Society of Financial Analysts and the CFA Institute. In addition to securities investments, James has invested in real estate since 1997. He co-founded Beach Front Properties in California in February 1997, Grand River Properties in Shanghai in June 2003 and Dalton REIT 1 GmbH & Co. KG. James holds an MBA from New York University and is an adjunct Professor of Finance at New York University's Stern Graduate Business School. At Shore Capital he is a member of the Audit Committee and is Chairman of the Remuneration Committee.

Senior Management

Michael van Messel
Head of Finance and Tax
Michael van Messel graduated from Imperial College, London, with a degree in Physics after which he joined Hacker Young and qualified as a Chartered Accountant. He then worked as a specialist in their tax department and subsequently for Coopers & Lybrand within its financial services group. He joined Shore Capital in 1993 as Group Financial Controller and became Operations Director in 2000. He is a Fellow of the Institute of Chartered Accountants, is the head of the Group's finance team and is also responsible for all operations at Shore Capital Group.

Dr Clive Black
Head of Research
Dr Clive Black has been highly ranked in fund manager surveys for over twenty years. In 2011 he was voted No. 3 in the UK whole market in the Thomson Reuters UK survey (No.1 in Retail in 2014 & 2015) and in 2012 he was voted 'Analyst of the Year' at the prestigious City AM awards. In 2017 he was ranked the top earnings estimator for Food Staples and Retail in Europe in the Thomson Reuters analysts awards. His work on the food industry continues to be widely referenced in financial and industry journals and in 2019 he gave a key note speech at the globally renowned Oxford Farming Conference. He holds a Ph.D from The Queen's University of Belfast where he is now Chair of the Industry Advisory Board of the internationally renowned Institute of Global Food Security; he was awarded the alumni of the year at Queen's in 2013. From academic research he become Head of Food Policy at the NFU in London before joining Northern Foods plc. He moved into equity research with Charterhouse Tilney where he was a Director; he became Head of Pan-European Retail research when it was acquired by ING Financial Markets. He joined Shore Capital in 2003 as Head of Research.

Dru Danford
Chief Executive of Shore Capital and Corporate Limited
Dru Danford is Head of Corporate Advisory at Shore Capital, having joined in 2004. He qualified as a Chartered Accountant with Ernst & Young in 1997 before moving into investment banking in 1999. Over the past 20 years, Dru has specialised in advising quoted companies in London from both a financial advisory and corporate broking perspective. Dru has successfully led numerous transactions including

Board of Directors and Senior Management

IPOs, fundraisings, acquisitions, disposals and takeovers across a wide range of sectors on both AIM and the Main Market.

Malachy McEntyre
Head of Corporate Broking
Malachy sits on the Shore Capital Markets board. He joined Shore Capital in 2004 on the equity sales desk having previously worked on the buy & sell side with Tilney Asset Management and Goodbody Stockbrokers. He led Shore Capital's sales team from 2010 to 2018 and now leads Shore Capital's Corporate Broking activities. Malachy works closely with our corporate clients and is heavily involved in our corporate transactions.

Corporate governance

General

The Board of Shore Capital Group Limited (the Group) has elected to adopt the Quoted Companies Alliance (QCA) 2018 Corporate Governance Code in line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM-quoted companies to adopt and comply with a recognised corporate governance code. This report sets out how we comply with the QCA Code. Disclosures may also be found on the Group's website under the AIM Rule 26 section - www.shorecap.co.uk/aim-rule

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The strategy and business operations of the Group are summarised in the Operating Review on pages 6 to 11. The Group Board is responsible for the strategy of the Group which is designed to create long term value for shareholders.

Principle 2: Seek to understand and meet shareholder needs and expectations

Communication with its shareholders is important to the Group and it communicates with shareholders through both the interim and annual reports. In addition, all shareholders may attend the Group's Annual General Meeting where they may raise matters relating to their shareholdings and the business of the Group. Communication with the Group's largest institutional shareholders is undertaken as part of the Group's investor relations programme (usually following the announcement of its interim and final results) and any feedback arising is provided to the Group Board. The two joint CEOs attend these events.

The Group also issues ad hoc releases to the market with operational and financial updates as required.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

There is an Employee Handbook which includes rigorous policies on whistle-blowing, ethics and treating customers fairly. All staff are periodically required to undergo compliance training including in relation to anti-money laundering, anti-bribery and market abuse.

The Group supports charitable activities undertaken by employees and matches funds raised at various events.

The Group aims wherever appropriate to be environmentally conscious. During the year, it recycled a large amount of waste paper and arranged for used printer cartridges and office furniture and equipment to be collected for recycling and environmentally sound disposal. It has adopted low energy lighting systems where appropriate.

Stakeholders including suppliers are able to make contact by telephone, email or post to their contact person in the Group and matters are passed to the Group Board where necessary.

Corporate governance (continued)

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Group Board has developed a detailed risk map outlining the key risks that it has identified across its various business activities. For each risk identified, the risk map details the control(s) that have been implemented to mitigate that particular risk. This enables the Group Board to identify those risks that pose the greatest risk to the Group.

The Group's policies for managing the financial risks arising from its activities, including the use of derivative instruments, are set out in note 26 on pages 78 to 84. In addition, the Group has policies and procedures in place to mitigate the other risks to which it is exposed, including reputational risk, operational risk and insurance risk. The Group's activities comprise equity capital market activities, asset management and principal finance and its income is therefore subject to the level of general activity, sentiment and market conditions in each of the markets in which it operates.

The Group Board exercises oversight over the Group and the operating boards, including their sub-committees appointed to oversee the management of operations and operational risk, in particular in the following manner:

i the operating boards are required to escalate certain matters to the Group Board in accordance with the agreed escalation procedure.

ii issues of importance may be escalated direct to the Group Board by the relevant risk committee or the compliance committee.

iii the Group Board meets no fewer than four times per annum to which is submitted a Compliance Report which summarises relevant regulatory compliance issues within the Group, risks, trends, regulatory news and compliance developments likely to impact the Group and its operating subsidiaries. The Compliance Reports are included in the Group Board packs and are considered at Group Board meetings.

The Group has personal account dealing rules in place, monitored by the Compliance Department, which apply to all employees and are designed to ensure that Group companies and employees comply with all relevant laws and regulations relating to personal dealing and that no client is disadvantaged by such dealings.

Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

The Group Board currently comprises four executive and two non-executive Directors. It carries ultimate responsibility for the conduct of the business of the Group. The Group Board maintains full control and direction over appropriate strategic and financial issues through regular meetings and reports to ensure that the Group Board is supplied with all the information it needs. The Group Board considers each of the non-executive Directors, Dr Zvi Marom and James Rosenwald III, to be independent in character and judgement as whilst both own shares in the Group, each have significant other business interests and activities. The Group Board as a whole considers their shareholdings in the Group to be an advantage for the shareholders as in addition to their fiduciary duties, their interests are aligned with shareholders

Corporate governance (continued)

generally. The terms and conditions of appointment of the non-executive Directors are available for inspection by any person at the Group's registered office and also at the Group's AGM.

The non-executive Directors of the Group Board have been selected with the objectives of increasing the breadth of skills and experience of the Group Board, and bringing constructive challenge to the executive Directors. The Group has determined that the composition of the Group Board and its committees brings a desirable range of skills, personal qualities and experience for delivering the strategy, based upon the size and nature of the business of the Group. All Directors are subject to re-election by shareholders at the Annual General Meeting within a three year rotation period. Any Directors appointed during the financial year must be formally elected at the Annual General Meeting following their appointment.

The Group believes that the successful functioning and effectiveness of the Group Board is premised upon a number of key factors, in addition to Group Board composition:

• Agenda and frequency of meetings, and monitoring of attendance;
• Access to the appropriate advice and administrative services – via the Company Secretary and external resources as required;
• Thorough induction of new Directors to the Group Board and its committees;
• Performance assessment of the Group Board as a unit and of its members individually.

The Chairman and the Group Board hold these factors in the highest regard and commit to performing an annual evaluation to review and assess their application in practice. The non-executive Directors attend board meetings and are also available to address ad hoc matters as and when required.

	Board	**Audit**	**Remuneration**
Total number of meetings in 2018	5	3	2
Number of meetings attended in 2018:			
Howard Shore	5	n/a	n/a
Lynn Bruce	5	3	n/a
Dr Zvi Marom	5	3	2
James Rosenwald III	5	3	2
Simon Fine	3	n/a	n/a
David Kaye	3	n/a	n/a

The Chairman determines the agenda for board meetings and supporting documents are provided by the Group's administration team.

The Group Board determines the Group's overall strategy; creation, acquisition or disposal of material corporate entities and investments; development and protection of the Group's reputation; public announcements including statutory accounts; significant changes in accounting policy, capital structure and dividend policy, operating plans and review of key performance indicators, resolution of litigation, Group remuneration policy and Group Board structure, composition and succession. The Compliance Department of the Group is responsible for identifying any director conflicts and ensuring that they are appropriately managed.

The Group maintains D&O insurance.

Corporate governance (continued)

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Directors provide the Group with the knowledge, mix of skills, experience and networks of contacts required. The non-executive Directors combine breadth of business and commercial experience with independent and objective judgement. The combination of non-executive and executive Directors enables the Group Board to provide effective leadership and maintain a high standard of integrity across the Group. The Directors' biographical details are set out on page 21.

The Compliance Department carries out Induction Training for any new director.

Directors are permitted to take external professional advice at the Group's expense in connection with the performance of their duties as a director.

Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Group Board has an informal annual review process to assess how each of the Directors is performing. The performance of the executive Directors is reviewed by the Chairman against previously agreed objectives and the Chairman's performance is in turn appraised by the non-executive Directors. Remuneration is determined by the Remuneration Committee. Remuneration is set at the level required to attract, retain and motivate high calibre Directors and a significant proportion of total remuneration is linked to corporate and individual performance.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

Shore Capital's success has been built on the quality, innovation and drive of its people. We attract the brightest and most talented professionals and seek the most energetic and able people to enhance the business.

Clients value our skills to help them grow their businesses and create wealth. We operate an open and collaborative working culture in which team-work delivers solutions to clients that help them achieve their business objectives.

Great relationships engender greater trust and co-operation and we have known many of our clients for over a decade. In the tradition of merchant banking, we aim to create productive mutually beneficial long-term relationships with our clients, focused on working with them, rather than just for them.

The Group has robust policies in place, monitored by the Compliance Department, set out either in the Group's Compliance Manual or in self-standing policy documents covering subjects including anti-bribery, Treating Customers Fairly, anti-money laundering, whistleblowing and corruption policies and corporate entertaining.

Four of the Group's operating subsidiaries are authorised and regulated by the Financial Conduct Authority which provides a regulatory framework designed to ensure that financial markets are, inter alia, honest, fair and effective.

Corporate governance (continued)

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The Group Board has two committees, the Audit Committee and the Remuneration Committee. The Group Board does not have a Nominations Committee or a senior independent director. This is because with two non-executive Directors and a board of only six in total, nominations can be readily handled without a committee by the Group Board as a whole, whilst the non-executive Directors are accessible to shareholders in the event of issues arising.

Audit Committee
The Board has appointed an Audit Committee with written terms of reference. The terms of reference of the Audit Committee are available for inspection by any person at the Company's registered office during normal business hours and for 15 minutes prior to and during the Company's Annual General Meeting. It comprises two non-executive directors, Dr Zvi Marom and James Rosenwald III, together with Lynn Bruce and is chaired by Lynn Bruce. The Audit Committee undertakes a detailed review of the Group's half yearly and annual financial reports, is responsible for reviewing whether the accounting policies are appropriate and for monitoring internal compliance and external audit functions, including the cost effectiveness, independence and objectivity of the auditor. The committee meets periodically with the auditor to receive a report on matters arising from their work.

The committee receives a report from the external auditor concerning their internal processes to ensure that the independence and objectivity of the auditor are safeguarded at all times. The committee is satisfied that the safeguards and procedures established by the auditor are sufficient to counter threats or perceived threats to their objectivity.

Remuneration Committee

The Board has appointed a Remuneration Committee which comprises two directors, James Rosenwald III and Lynn Bruce. While the inclusion of an executive director is a departure from the Code, the executive director's remuneration is fixed at the same level as that of the independent non-executive directors. Therefore the Board considers that she has sufficient independence for the purposes of this committee. The terms of reference of the Remuneration Committee are available for inspection by any person at the Company's registered office during normal business hours. The Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the UK Listing Authority. The principal function of the Remuneration Committee is to determine the Group's policy on executive remuneration.

It makes its decisions in consultation with the Chairman. No director plays a part in any decision about their own remuneration. The committee meets periodically when it has proposals to consider and in any event no less than once each year.

The main aim of the committee's policy is to attract, retain and motivate high calibre individuals with a competitive remuneration package. Remuneration for executives comprises basic salary, performance related bonus, pension benefits, other benefits in kind and options granted pursuant to the Shore Capital Group Share Option Plan. No director has a service contract for longer than 12 months.

Corporate governance (continued)

The Group Board has a formal schedule of matters reserved for its decision and delegates certain matters to committees. The Group Board determines the Group's overall strategy; creation, acquisition or disposal of material corporate entities and investments; development and protection of the Group's reputation; public announcements including statutory accounts; significant changes in accounting policy, capital structure and dividend policy, operating plans and review of key performance indicators, resolution of litigation, Group remuneration policy and board structure, composition and succession.

Directors are sent comprehensive information packs before board meetings with financial and managerial information. Monthly management accounts are also circulated to Directors including actual and forecast information.

Principle 10: Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Group communicates with shareholders through both the interim and annual reports. In addition, all shareholders may attend the Group's Annual General Meeting where they may raise matters relating to their shareholdings and the business of the Group. Communication with the Group's largest institutional shareholders is undertaken as part of the Group's investor relations programme and any feedback arising is provided to the Group Board.

The Group also issues ad hoc releases to the market with operational and financial updates as required. Any shareholder queries should be addressed to info@shorecap.gg.

The Group's Reports and Accounts, Notices of Annual General Meeting of the Group and results of voting on all resolutions at Annual General Meetings can be found on our website www.shorecap.gg.

Directors' Report

The Directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2018.

Activities and business review

The main activities of the Group consist of investment related activities, including stockbroking, market-making, corporate finance advice, asset management including specialist fund management and principal finance.

A review of the year and future developments is contained in the Chairman's Statement, financial review and operating review on pages 3 to 11. The statement also includes details of the key performance indicators which management use.

Results and dividends

The results for the financial year are set out on page 33. An interim dividend of 5.0p per share was paid during the year (2017: 5.0p per share). The Directors propose a final dividend of 5.0p per share for the year ended 2018 (2017: 5.0p per share) making a total for the year of 10.0p per share (2017: 10.0p per share). The dividend will be paid on Wednesday 24 April 2019 to shareholders on the register as at Friday 5 April 2019. Further detail of dividends paid in the year can be found in note 9.

Capital structure

Details of the issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 25 of the financial statements. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provision of the Articles of Association. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Regulatory Capital *(unaudited)*

Capital resources*, capital requirements and surplus capital at the balance sheet dates were as follows:

	2018	2017
	£'000	£'000
Group		
Capital resources per statement of financial position	**68,063**	67,170
Less non EU resources	**(31,106)**	(32,127)
Capital resources	**36,957**	35,043
Less Capital Resources Requirement	**(10,926)**	(8,988)
Surplus capital resources	**26,031**	26,055

The Group's lead regulator is the Financial Conduct Authority (FCA) in the UK. Four of the Group's operating subsidiaries are regulated by the FCA which imposes a minimum level of regulatory capital which must be maintained by each company and also an overall level of regulatory capital which must be maintained by the Group's UK businesses*. The Group has maintained a surplus throughout the year over its regulatory capital requirements.

Directors' Report (continued)

Regulatory Capital *(*continued)

As a result of the Group's history of strong organic growth, retained reserves have been the primary source of capital resources. The Group's balance sheet is strong and it continues to generate cash from its operations.

Capital resources are largely comprised of share capital and reserves, net of intangible assets. Capital requirements are derived from credit risk, market risk and operational risk considerations.

* The calculation of Capital Resources for the purposes of these rules only permits the inclusion of resources that are located in EU countries. Accordingly, the amount of Capital resources as presented in the table above excludes the assets and liabilities that are held by the Group's Guernsey based companies.

Risk management
The Group's policies for managing the financial risks arising from its activities, including the use of derivative instruments, are set out in note 26. In addition the Group has policies and procedures in place to mitigate the other risks to which it is exposed, including reputational risk, operational risk and insurance risk. The Group's activities comprise equity market activities, asset management and principal finance and its income is therefore subject to the level of general activity, sentiment and market conditions in each of the markets in which it operates.

Directors
The Directors who served the Company during the financial year and their beneficial interests in the ordinary shares of the Company were:

	Ordinary shares of Nil par value	
	31 December 2018	**31 December 2017**
Howard Shore	9,533,696	9,533,696
Lynn Bruce	50,000	50,000
Simon Fine	283,407	283,407
David Kaye	57,944	57,944
Dr Zvi Marom	95,182	95,182
James Rosenwald III	538,412	538,412

The beneficial interests of the Directors in share options over ordinary shares of the Company are set out in note 7e.

The Company makes qualifying third-party indemnity provisions for the benefit of its Directors which are in force at the date of this report.

Charitable donations
The Group made charitable donations of £150,000 (2017: £264,000) during the year.

Directors' Report (continued)

Events after the balance sheet date
Details of events after the balance sheet date are set out in note 28.

Going concern
The Group's liquidity position is set out in note 20 and its borrowing facilities in note 22. In addition, note 26 includes details of policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with an established business model. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Environmental policy
The Group aims wherever appropriate to be environmentally conscious. During the year, it recycled a large amount of waste paper and arranged for used printer cartridges and office furniture and equipment to be collected for recycling and environmentally sound disposal. It has adopted low energy lighting systems where appropriate.

Major shareholdings
Other than Directors, the following shareholders had notified the Company of holdings of 3% or more of the shares of the Company as at 22 March 2019:

	Ordinary Shares	**%**
G B Shore (direct and beneficial interest)	2,116,009	9.81
Aralon Resources and Investment Company Limited	1,267,380	5.87
K Spencer (direct and beneficial interest)	1,076,576	4.99
Miton Group plc	949,079	4.40

Independent Auditor
Each of the persons who is a director at the date of approval of this annual report confirms that:
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps which they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' Report (continued)

Statement of director's responsibilities

This confirmation is given and should be interpreted in accordance with the provisions of s249(2) of the Companies (Guernsey) Law, 2008.

BDO Limited has expressed its willingness to continue in office. A resolution to re-appoint them as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable rules and regulations.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

The Directors are required to prepare Group financial statements for each financial year, in accordance with applicable Guernsey law and those International Financial Reporting Standards (IFRS) as adopted by the European Union, which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: "*Accounting Policies, Changes on Accounting Estimates and Errors*" and then apply them consistently;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

- state whether the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and

Directors' Report (continued)

Statement of director's responsibilities (continued)

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website.

By order of the Board

Lynn Bruce
Company Secretary
22 March 2019

Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

Opinion

We have audited the financial statements of Shore Capital Group Limited (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the Key Audit Matter in the Audit
Revenue recognition – Capital Markets division As described in note 1 to the financial statements, the group earns revenue from the Capital Markets division arising from multiple revenue streams including the net profit/loss on principal trading, commission income and corporate advisory and deal fees. Revenue recognition from the Capital Markets division was considered to be a Key Audit Matter as revenue from principal trading and brokerage commission consists of a high volume of transactions and is calculated automatically. Additionally, significant judgement is required in respect of the recognition of corporate finance deal fees.	Our procedures performed included: **Commission earned from trading on an agency basis and realised and unrealised trading gains and losses on shares traded on a principal basis:** • We re-performed reconciliations between the trading system and the general ledger on an annual basis • We observed and tested the controls around the trading system's calculation of realised gains / losses on trades • We reconciled the realised and unrealised gains during the year to the movement in trading assets / liabilities, market debtors / creditors and cash movement during the year • We obtained and reviewed service organisation control reports from service providers responsible for the clearing and settlement of trades to consider any findings that would impact the audit approach • We obtained direct confirmation from the service organisations of the year end market positions held • We reviewed the migration reconciliation between clearing brokers used during the year as part of our interim review procedures • We vouched monthly receipts of commission to bank and agreed these to service organisation statements. **Corporate finance deal fees and placing commissions**: • We recalculated the amount due in respect of a sample of corporate finance transactions based on the terms set out in the relevant engagement letters • We considered the status of open projects at the year end to determine whether it would be

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

	appropriate to recognise any revenue during the year • We have analysed deal fees and placing commissions received subsequent to the year-end, based on the terms set out in the relevant engagement letters and the timing of the completion of the deals, to determine whether revenue should be recognised in the year.

Revenue recognition – Asset Management division Revenue from the Asset Management division includes revenue from fund management fees and other ancillary fees as described in note 1 to the financial statements. Revenue recognition from the Asset Management division was considered to be a Key Audit Matter as significant judgement is required in respect of the recognition of certain elements of revenue, particularly in respect of deferred advisory fees and deal-specific fees. Management fee income is based on underlying fund asset values that may not be audited.	Our procedures performed included: • We recalculated the management fees and investment advisory fees with reference to the underlying investment management and investment advisory agreements • We verified a sample of the inputs into the management fee calculation by agreeing the underlying fund asset values to audited accounts and the latest available financial information for the intervening periods • We recalculated arrangement and deal fees with reference to the underlying agreements and reviewed and challenged the accounting treatment and recognition criteria • We recalculated launch fees with reference to the investor lists produced by the third party registrars • We reviewed invoices raised after the year-end and confirmed, where these related to revenue earned in the year, that this had been appropriately recognised as accrued income. • We reviewed new loan management agreements made during the year and considered the accounting treatment to ensure revenue recognition is in compliance with IFRS 15

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

Valuation of principal finance investments and consideration of impairment of tangible and intangible assets The group holds a number of unquoted investments that are measured at fair value as described in notes 16 and 25 to the financial statements. In addition, the group holds significant tangible (note 15), intangible (note 14) and investment property (note 16) assets that are required to be considered for indicators of impairment at the reporting date. The valuation of principal finance investments and investment property assets and the consideration of impairment of tangible, intangible were considered to be Key Audit Matters due to the significant judgement involved in determining the fair value and/or the level of any impairment required.	Our procedures performed included: Unquoted investments • We reviewed the valuation reports prepared by management • We challenged the assumptions inherent in the valuation of unquoted investments • We reviewed the historical financial statements and recent management information available for unquoted investments used to support assumptions used in the valuations. Quoted investments • We verified existence of the investments through direct confirmation of holdings from Pershing • We obtained independent bid prices for the investments to gain assurance over the valuation of the investments. Tangible and intangible assets • We reviewed management's consideration of indications of impairment for the relevant assets at 31 December 2018 • We reviewed and challenged the assumptions used in management's estimates of fair value less costs to sell with reference to independent information including evidence of recent market transactions for similar assets • We reviewed correspondence with the German Telecoms Regulator ('BNetzA') in respect of the chance in frequency and 'flexibilised' basis of the Spectrum licences. Investment properties • We obtained the latest third party valuation report performed by management's expert • We reviewed the Directors' assessment of fair value at 31 December 2018 with reference to market transactions in the period and available independent commentary on valuation movements for specialist properties over the period since the last assessment performed by management's expert.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial, as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £510,000 (2017: ££578,000), which represents 7.5% of the average profit before tax for the last four years, excluding one-off items. We used profit before tax as the most important benchmark given the importance of profit as a measure for shareholders in assessing the performance of the group. In setting materiality, we also had regard to the Consolidated Statement of Financial Position, in light of the asset based nature of certain significant parts of the group.

Our audit work on each significant component of the group was executed at levels of materiality applicable to the individual entity, all of which were lower than group materiality.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. On the basis of our risk assessment, together with our assessment of the group's overall control environment, our judgment was that overall performance materiality for the group should be 75% (2017:65%) of materiality, namely £380,000 (2017: £375,000).

We agreed with the Audit Committee that we would report to them all audit differences in excess of £10,000 (2017: £12,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit taking into account the nature of the group's operations, the involvement of its key service providers and the accounting and reporting environment.

The group manages its operations from 5 locations in Europe: Guernsey, London, Liverpool, Edinburgh and Berlin and consists of the parent company and a number of subsidiary undertakings.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

The group audit engagement team carried out full scope audits for the parent company and the significant components based in the UK and Guernsey. Other transactions and balances within the financial statements, arising in insignificant components, were audited directly by the group audit engagement team. Significant component were assessed on their individual financial significance to the group with reference to their profit before tax, revenue and net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities within the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHORE CAPITAL GROUP LIMITED

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:
https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement director on the audit resulting in this independent auditor's report is Stuart Phillips.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey
Channel Islands

22 March 2019

Consolidated Income Statement
For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue	**1, 3**	**43,334**	41,896
Administrative expenditure		**(38,929)**	(35,906)
Balance sheet impairments	**4**	**-**	(1,883)
Share of results of associates	**4**	**-**	805
Operating profit	**4**	**4,405**	4,912
Interest income	**5**	**43**	95
Finance costs	**6**	**(380)**	(430)
		(337)	(335)
Profit before taxation	**2**	**4,068**	4,577
Taxation	**8**	**(485)**	(912)
Profit for the year		**3,583**	3,665
Attributable to:			
Equity holders of the parent		**2,727**	2,826
Non-controlling interests		**856**	839
		3,583	3,665
Earnings per share			
Basic	**10**	**12.6p**	13.1p
Diluted	**10**	**12.5p**	12.8p

All transactions are in respect of continuing operations.

The accompanying notes form part of the financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	2018 £'000	2017 £'000
Profit after tax for the year	**3,583**	3,665
Items that may be reclassified to the income statement		
Losses on revaluation of available-for-sale investments	**-**	(14)
(Losses)/gains on cash flow hedges	**(201)**	105
Tax thereon	**38**	(20)
	(163)	71
Exchange difference on translation of foreign operations	**299**	516
Other comprehensive income for the year, net of tax	**136**	587
Total comprehensive income for the year, net of tax	**3,719**	4,252
Attributable to:		
Equity holders of the parent	**2,785**	3,260
Non-controlling interests	**934**	992
	3,719	4,252

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position
As at 31 December 2018

		2018	2017
		£'000	£'000
Non-current assets			
Goodwill	**13**	**381**	381
Intangible assets	**14**	**2,263**	2,229
Property, plant & equipment	**15**	**7,653**	7,699
Investment properties	**16**	**2,643**	-
Principal Finance Investments	**17**	**5,357**	6,475
Deferred tax asset	**8**	**108**	149
		18,405	16,933
Current assets			
Trading assets	**18**	**9,837**	8,154
Trade and other receivables	**19**	**42,058**	52,767
Derivative financial instruments		**-**	32
Cash and cash equivalents	**20**	**31,015**	35,673
		82,910	96,626
Total assets	**2**	**101,315**	113,559
Current liabilities			
Trading liabilities	**12**	**(708)**	(1,017)
Trade and other payables	**21**	**(27,877)**	(34,602)
Derivative financial instruments		**(135)**	(12)
Tax liabilities		**(165)**	(966)
Borrowings	**22**	**(4,299)**	(9,726)
		(33,184)	(46,323)
Non-current liabilities			
Provision for liabilities and charges	**23**	**(68)**	(66)
		(68)	(66)
Total liabilities	**2**	**(33,252)**	(46,389)
Net assets		**68,063**	67,170
Capital and reserves			
Share capital	**25**	**-**	-
Share premium		**1,866**	1,866
Merger reserve		**14,903**	14,903
Other reserves		**1,348**	1,596
Retained earnings		**39,992**	39,882
Equity attributable to equity holders of the parent		**58,109**	58,247
Non-controlling interest		**9,954**	8,923
Total equity		**68,063**	67,170

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 22 March 2019. Signed on behalf of the Board of Directors:

Lynn Bruce
Director

Dr Zvi Marom
Director

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital	Share premium account	Merger reserve	Other Reserves	Retained earnings	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	-	336	17,151	1,596	39,587	8,415	67,085
Profit for the year	-	-	-	-	2,826	839	3,665
Revaluation of available for sale investments	-	-	-	(14)	-	-	(14)
Foreign currency translation	-	-	-	-	380	136	516
Valuation change on cash flow hedge	-	-	-	84	-	21	105
Tax on cash flow hedge (note 8)	-	-	-	(16)	-	(4)	(20)
Total comprehensive income	-	-	-	54	3,206	992	4,252
Decrease in deferred tax asset recognised directly in equity (note 8)	-	-	-	(62)	-	-	(62)
Equity dividends paid (note 9)	-	-	-	-	(2,167)	-	(2,167)
Dividends paid to non controlling interests/ rebalancing of non controlling interest	-	-	-	-	(744)	(694)	(1,438)
Issue of shares	-	1,530	-	-	-	-	1,530
Repurchase/cancellati-on of own shares (note 25)	-	-	(2,248)	-	-	-	(2,248)
Credit in relation to share based payments	-	-	-	8	-	-	8
Investment by non-controlling interest in subsidiaries	-	-	-	-	-	210	210
At 31 December 2017	-	1,866	14,903	1,596	39,882	8,923	67,170

Consolidated Statement of Changes in Equity (continued)
For the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Non-controlling interest £'000	Total £'000
At 1 January 2018	**-**	**1,866**	**14,903**	**1,596**	**39,882**	**8,923**	**67,170**
Transition adjustment - IFRS 9 Financial instruments	**-**	**-**	**-**	**48**	**(48)**	**-**	**-**
At 1 January 2018 (as restated)	**-**	**1,866**	**14,903**	**1,644**	**39,834**	**8,923**	**67,170**
Profit for the year	**-**	**-**	**-**	**-**	**2,727**	**856**	**3,583**
Foreign currency translation	**-**	**-**	**-**	**-**	**224**	**75**	**299**
Valuation change on cash flow hedge	**-**	**-**	**-**	**(203)**	**-**	**2**	**(201)**
Tax on cash flow hedge (note 8)	**-**	**-**	**-**	**38**	**-**	**-**	**38**
Total comprehensive income	**-**	**-**	**-**	**(165)**	**2,951**	**933**	**3,719**
Equity dividends paid (note 9)	**-**	**-**	**-**	**-**	**(2,158)**	**-**	**(2,158)**
Dividends paid to non controlling interests/ rebalancing of non controlling interest	**-**	**-**	**-**	**-**	**(635)**	**(1,308)**	**(1,943)**
Debit in relation to share based payments	**-**	**-**	**-**	**(131)**	**-**	**-**	**(131)**
Investment by non controlling interest in subsidiaries	**-**	**-**	**-**	**-**	**-**	**1,406**	**1,406**
At 31 December 2018	**-**	**1,866**	**14,903**	**1,348**	**39,992**	**9,954**	**68,063**

The accompanying notes form part of the financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2018

	Notes	2018	2017
		£'000	£'000
Cash flows from operating activities			
Operating profit		**4,405**	4,912
Adjustments for:			
Depreciation and impairment charges	**4**	**1,262**	2,775
Share-based payment (credit)/ charge		**(131)**	8
Fair value (gains)/losses on Principal Finance investments		**(367)**	320
Share of results of associate		**-**	(805)
Reduction in provision for national insurance on options		**(36)**	(38)
Operating cash flows before movements in working capital		**5,133**	7,172
Decrease/(increase) in trade and other receivables		**11,787**	(902)
(Decrease)/increase in trade and other payables		**(6,833)**	3,369
(Decrease)/increase in trading liabilities		**(309)**	252
(Increase)/decrease in trading assets		**(1,683)**	4,136
Cash generated by operations		**8,095**	14,027
Interest paid		**(380)**	(430)
Corporation tax paid		**(1,207)**	(962)
Net cash generated by operating activities		**6,508**	12,635
Cash flows from investing activities			
Purchase of property, plant & equipment	**15**	**(882)**	(681)
Sale of property, plant & equipment		**-**	80
Sale of investment property	**16**	**-**	2,885
Acquisition of subsidiary, net of cash acquired		**(826)**	-
Investment in associate		**-**	(7,000)
Redemption of shares in associate		**-**	7,750
Income from associate		**-**	55
Purchase of Principal Finance investments	**17**	**(803)**	-
Sale of Principal Finance investments		**1,270**	314
Investment by non controlling interest in subsidiaries		**1,331**	210
Interest received		**43**	95
Net cash generated by investing activities		**133**	3,708
Cash flows from financing activities			
Issue of shares		**-**	1,530
Repurchase of own shares		**-**	(2,248)
Decrease in borrowings	**22**	**(12,192)**	(393)
New borrowings		**4,458**	-
Dividends paid to equity shareholders	**9**	**(2,158)**	(2,167)
Dividends paid to non controlling interests		**(1,943)**	(1,438)
Net cash used in financing activities		**(11,835)**	(4,716)
Net (decrease)/increase in cash and cash equivalents		**(5,194)**	11,627
Effects of exchange rate changes		**536**	109
Cash and cash equivalents at the beginning of the year	**20**	**35,673**	23,937
Cash and cash equivalents at the end of the year	**20**	**31,015**	35,673

The accompanying notes form part of the financial statements.

Notes to the Financial Statements
For the financial year ended 31 December 2018

1. Accounting Policies

Basis of preparation
These consolidated annual financial statements of Shore Capital Group Limited (the "Company") and its subsidiaries (together referred to as the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("Adopted IFRS").

Going concern
The Group continues to adopt the going concern basis in preparing the financial statements as discussed in more detail in the Directors' report.

Presentation of the financial statements and financial information
In accordance with Section 244(5) of the Companies (Guernsey) Law, 2008, the financial statements of the parent company are not presented as part of these financial statements.

Adoption of new and revised standards

New standards, amendments and interpretations adopted
This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied, the impact of which is described below.

IFRS 9 Financial Instruments
IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39: Recognition and Measurement. IFRS 9 contains three principal classification categories for financial assets: fair value through profit or loss (FVTPL), measured at amortised cost and fair value through other comprehensive income (FVOCI). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

Transition:
The standard has been adopted from 1 January 2018 and applied retrospectively by adjusting where necessary, the opening balance sheet at the date of initial application, with no restatement of comparative periods.

Classification and measurement of financial assets:
The Group's financial assets consist of trading assets from its Capital Markets business and investments from its Principal Finance business which are both currently measured at fair value through profit or loss either held for trading or designated at fair value. This treatment has therefore not changed under IFRS 9. However, at the date of transition, the Group held £513,000 of investments as available-for-sale which were classified as being at fair value through profit or loss under IFRS 9. This means that all changes in the fair value up to the point of disposal will now be recorded in the consolidated income statement. In addition, the balance on the available-for-sale reserve at 31 December 2017 of £48,000 has been transferred to retained earnings.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018:

As at 1 January 2018	Old classification under IAS 39	New classification under IFRS 9	Old carrying amount under IAS 39	New carrying amount under IFRS 9
			£'000	£'000
Financial assets				
Cash and cash equivalents	Amortised cost	Amortised cost	35,673	35,673
Trading assets – unlisted holdings	Designated at fair value	Fair value through profit or loss	562	562
Trading assets – listed holdings	Held for trading	Fair value through profit or loss	7,592	7,592
Trade receivables in the course of collection	Amortised cost	Amortised cost	46,610	46,610
Financial investments	Designated at fair value	Fair value through profit or loss	5,962	5,962
Financial investments	Available-for-sale	Fair value through profit or loss	513	513
Derivatives	Held for trading	Fair value through profit or loss	32	32
Accrued income	Loans and receivables	Amortised cost	3,955	3,955
Other assets	Amortised cost	Amortised cost	2,202	2,202
Total financial assets			**103,101**	**103,101**
Financial liabilities				
Bank overdrafts and borrowings	Amortised cost	Amortised cost	9,726	9,726
Trading liabilities	Held for trading	Fair value through profit or loss	1,017	1,017
Trade creditors in the course of collection	Amortised cost	Amortised cost	26,398	26,398
Derivatives	Held for trading	Fair value through profit or loss	12	12
Other liabilities	Amortised cost	Amortised cost	7,172	7,172
Total financial liabilities			**44,325**	**44,325**

Impairment:
The Group applies an expected credit loss model when calculating impairment losses on its trade and other receivables (both current and non-current). In applying IFRS 9 the Group must consider the probability of a default occurring over the contractual life of its trade receivables and contract asset balances on initial recognition of those assets. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the Group's income statement. However, no such line appears for the year ended 31 December 2018 as a result of materiality considerations.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

At the date of application the Group did not include any adjustment to increase the impairment of its financial assets from the existing provision of £16,000 due to the historically low level of bad debts suffered by the Group which equates to only 0.04% of all trade and other receivables.

IFRS 15 Revenue from Contracts with Customers
This standard has been adopted on its mandatorily effective date of 1 January 2018 and applied on a retrospective basis. There was no impact of applying the standard on this basis and therefore no cumulative effect to adjust in the opening balance of retained earnings. The Group will continue to assess individual customer contracts for separate performance obligations to allocate the correct transaction price as they occur. The impact of the new revenue standard has not had a significant effect on the consolidated results.

For additional information on the Group's accounting policies relating to revenue recognition see further down in note 1.

Standards, amendments and interpretations in issue but not yet effective
There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019).

IFRS 16 Leases
Adoption of IFRS 16 will result in the Group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

At 31 December 2018 operating lease commitments amounted to £1.9 million (see note 11).

On 12 March 2019 the Group signed a 10 year occupational lease with a 5 year break clause for its new London office (see note 28 for further details). The signing of this new lease will result in a significant increase in the right of use asset and lease liability recorded.

Transition:
The standard will be adopted from 1 January 2019 using the modified retrospective approach. This recognises the cumulative effect of initially applying the standard as an adjustment to equity at the date of the initial application.

The Group anticipates recording a right of use asset of £9.1m and corresponding lease liability of approximately £8.9m relating to the new lease signed on 12 March 2019, with the right of use asset to be depreciated over the life of the lease and the lease liability subsequently measured at amortised cost using the effective interest rate per IFRS 9.

The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

General information
The Group is incorporated and registered in Guernsey. These financial statements are presented in pounds sterling, this being the currency of the primary economic environment in which the Group operates.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Basis of accounting
The financial statements have been prepared on the historical cost basis, except for the treatment of certain financial instruments and investment properties. The financial statements are rounded to the nearest thousand (expressed as thousands and with no decimal place - £'000), except where otherwise indicated. The principal accounting policies adopted are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved if and only if the investor has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue
There is little judgement in determining the timing of satisfaction of performance obligations and the transaction price and the amounts allocated to performance obligations because contracts with each customer contain the defined performance obligations and transaction price associated with it.

Fair value of unquoted equity instruments
Where there is no available representative external valuation, judgement is required to determine the most appropriate valuation method for unquoted equity instruments. Further details are set out later in this note 1 and in notes 17, 18 and 26(f).

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Deferred tax assets
Management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of deferred tax assets is set out in note 8.

Investment properties
Investment property which is held to earn rental income is held at fair value at the balance sheet date. Fair value is determined by reference to comparable market values.

Share-based payments
The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management are also required to use judgement in determining the most appropriate inputs to the valuation model. Details of the assumptions and model used are set out in note 7c.

Indicators of impairment of intangibles and tangible fixed assets
Where there is no available representative external valuation, judgement is required to determine the fair value at each balance sheet date to establish any indicators of impairment. Where the asset does not currently generate cash flows, the Group estimates the fair value less costs of disposal. The fair value of intangibles has been determined with reference to external market transactions. The Group estimated the fair value less costs of disposal of the rental asset based on a review of the market values of comparable assets.

Revenue
Revenue is measured based on the consideration specified in a contract with a customer. The application of IFRS 15 Revenue from contracts with customers has not resulted in any significant changes to the way the following revenue streams have been recognised.

Revenue includes the profit/loss on principal trading, commission income, corporate advisory fees, fund management fees, asset rental fees and other ancillary fees. This revenue is largely recorded at a point in time when the Group has fully completed the performance obligations per the contract, with revenue from fund management fees and corporate retainers fees being recognised over time as performance of those contractual obligations are on going throughout the period under contract.

Dividends and interest arising on trading assets and liabilities in securities form part of dealing profits and, because they are also reflected by movements in market prices, are not identified separately.

Fees from advisory engagements for which the work is substantially complete or which are at a stage where work for which separate payment is due, and which will become due but are not yet invoiced are recorded on a right to consideration basis. Where such fees are contingent on the outcome of a transaction they are only accounted for after the transaction has exchanged.

Revenue, including revenue from Stock Exchange transactions, is accounted for at trade/contract date rather than settlement date.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency translation
The Group's consolidated financial statements are presented in sterling, which is the Group's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the balance sheet date and their income statements are translated at average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Pension costs
The charge against profits is the amount of contributions payable in respect of defined contribution pension arrangements for Directors and employees in the year.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements (continued)

For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments.

The Group engages in equity settled share-based payment transactions in respect of services received from certain employees and directors. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the share options granted is recognised in the income statement over the period that the services are received, which is the vesting period, together with a corresponding increase in equity. The fair value of the options granted is determined using the Black-Scholes Option Pricing Model, which takes into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the Company’s share price over the life of the option and other relevant factors. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The income statement expense for the year represents the movement in cumulative expense recognised as the beginning and end of the year.

Employer’s National Insurance (“NI”) is accrued at the current rate of NI on differences between the market value at the balance sheet date of the shares that would be acquired when the options are exercised and the exercise price of those options.

The dilutive effect of outstanding share options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 10).

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Business combinations (continued)
Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed at the acquisition date, and is subject to a maximum of one year.

Goodwill
On the acquisition of a business or an interest in a business which is to be consolidated, fair values are attributed to the share of identifiable net assets acquired. Where the cost of acquisition exceeds the fair value attributable to such assets, the difference is treated as purchased goodwill. Goodwill arising on acquisitions is tested for impairment at that date. The Group evaluates goodwill annually and whenever circumstance indicates the possibility of impairment. Such evaluation is based on comparing the fair value of the cash-generating unit to its carrying value. Where the carrying value exceeds its fair value, an impairment loss is recorded for the difference.

Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale.

Intangible assets
Intangible assets purchased are measured initially at purchase cost, unless they are acquired as part of a business combination in which case they are measured initially at fair value which has been calculated on the basis of arm's length transactions.

Carrying amounts are reviewed on each reporting date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Impairment of goodwill and other non-financial assets
At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets (e.g. goodwill), the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount.

Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Depreciation is calculated so as to write off the cost of property, plant and equipment by equal annual instalments over their estimated useful lives at the following rates:-

Leasehold additions	-	over the unexpired term of the lease
Fixtures and equipment	-	25-33% per annum
Rental Asset	-	Straight line over remaining useful life
Motor vehicles	-	16.7% per annum

Depreciation of an asset commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property and operating leases
Rentals paid under operating leases are charged to the income statement evenly over the primary period of the contract.

Investment property
Investment property which is held to earn rental income is held at fair value at the balance sheet date. Fair value is determined by reference to comparable market values. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Financial instruments
Financial assets and financial liabilities are recognised in the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Financial instruments (continued)
Financial assets and liabilities
Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Policy applicable from 1 January 2018 under IFRS 9:

The three principal classification categories for financial assets are: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Assets held at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Financial instruments (continued)

Equity investments at OCI are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Policy applicable before 1 January 2018 under IAS 39:

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial assets and liabilities as at FVTPL
Financial assets and liabilities are classified as at FVTPL where the financial asset or liability is either held for trading or it is designated as at FVTPL. A financial asset or liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments which the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative which is not designated as an effective hedging instrument.

Financial instruments which are classified as held for trading through profit or loss comprise trading assets and liabilities in securities and derivative instruments. Trading assets and liabilities are valued at closing out prices at the close of business on the balance sheet date, namely trading assets at the bid price and trading liabilities at the offer price.

Derivatives are initially recognised at the contract value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A financial asset or liability, other than a financial asset or liability held for trading, may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities as at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss within operating profit. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset or financial liability.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Financial instruments (continued)
The Group's financial assets designated as at FVTPL upon initial recognition include positions in quoted and unquoted securities. The valuation technique and assumptions used to fair value these instruments are disclosed within note 26 (f).

Available-for-sale investments
Available-for-sale investments are revalued to their fair value with such revaluation being taken directly to equity. Where such investments are in unlisted securities, they are valued by the Directors at the most recent assessed fair value. Investments in listed securities held as available-for-sale investments are valued by reference to the market price of the shares. They are re-measured to their fair value at each balance sheet date.

Loans and receivables
Trade receivables and other receivables which have fixed or determinable payments which are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Impairment of financial assets from 1 January 2018
IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Write off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Impairment of financial assets before 1 January 2018

At each balance sheet date, the Group reviews whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Cash and cash equivalents
Cash comprises cash in hand and on-demand deposits which may be accessed without penalty and subject to insignificant risk of change in fair value. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

1. Accounting Policies (continued)

Trade and other payables
Trade and other payables are measured on initial recognition at fair value, and are subsequently measured at amortised cost.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. An equity instrument is any contract which evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Merger reserve
This reserve comprises the capital reserves acquired by the Company when it acquired the entire share capital of Shore Capital Group plc on 26 March 2010 and subsequent cancellation of shares.

Repurchase of share capital (own shares)
Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Such shares may either be held as Own Shares (treasury shares) or cancelled. Where own shares are subsequently re-sold from treasury, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Other reserves
This reserve comprises amounts taken to equity in respect of i) share based payments; ii) deferred tax movements; and iii) revaluations of investments at fair value through other comprehensive income.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

2. Segment Information

Additional analysis of revenue and results is presented in the Chairman's Statement.

For management purposes, the Group is organised into business units based on their services, and has four reportable operating segments as follows:

- Capital Markets provides research in selected sectors, broking for institutional and professional clients, market making in small and mid cap stocks, fixed income broking and corporate broking and advisory for large, mid and small cap companies.
- Asset Management provides advisory services, and manages specialist funds.
- Central Costs comprises the costs of the Group's central management team and structure
- Principal Finance comprises investments and other holdings acquired, together with principal finance activities conducted, using the Group's own balance sheet resources.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segmental performance is evaluated based on operating profit or loss. Transfer prices between operating segments are on an arms-length basis in a manner similar to transactions with third parties.

Year ended 31 December 2018	**Capital Markets**	**Asset Management**	**Central costs**	**Principal Finance**	**Consolidated**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	**25,452**	**15,843**	**-**	**2,039**	**43,334**
Results					
Depreciation	**(278)**	**(127)**	**(67)**	**(790)**	**(1,262)**
Interest expense	**(86)**	**(78)**	**-**	**(216)**	**(380)**
Profit/(loss) before tax	**4,058**	**3,166**	**(1,637)**	**(1,519)**	**4,068**
Assets	**56,658**	**10,018**	**1,599**	**33,040**	**101,315**
Liabilities	**(23,337)**	**(3,651)**	**(855)**	**(5,409)**	**(33,252)**

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

2. Segment Information (continued)

Year ended 31 December 2017	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Consolidated £'000
Revenue	27,230	12,906	-	1,760	41,896
Results					
Share of results of associates	-	-	-	805	805
Balance sheet impairments	-	-	-	(1,883)	(1,883)
Depreciation	(262)	(87)	(65)	(477)	(891)
Interest expense	(103)	-	-	(327)	(430)
Profit/(loss) before tax	5,193	3,001	(1,651)	(1,966)	4,577
Assets	66,317	8,319	2,948	35,975	113,559
Liabilities	(33,300)	(2,622)	(637)	(9,830)	(46,389)

3. Revenue

The initial impact of applying IFRS 15 on the Group's revenue from contracts with customers is described in note 1.

a) Revenue disaggregated by division and geographical market below:

Year ended 31 December 2018	**Capital Markets £'000**	**Asset Management £'000**	**Principal Finance £'000**	**Consolidated £'000**
UK	**25,452**	**12,489**	**1,185**	**39,126**
Rest of Europe	**-**	**3,354**	**854**	**4,208**
	25,452	**15,843**	**2,039**	**43,334**

Year ended 31 December 2017	Capital Markets £'000	Asset Management £'000	Principal Finance £'000	Consolidated £'000
UK	27,230	9,914	1,507	38,651
Rest of Europe	-	2,992	253	3,245
	27,230	12,906	1,760	41,896

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

3. Revenue (continued)

b) Revenue disaggregated by division and timing of recognition below:

Year ended 31 December 2018	**Capital Markets £'000**	**Asset Management £'000**	**Principal Finance £'000**	**Consolidated £'000**
Point in time	**21,319**	**7,982**	**2,039**	**31,340**
Over time	**4,133**	**7,861**	**-**	**11,994**
	25,452	**15,843**	**2,039**	**43,334**

Year ended 31 December 2017	Capital Markets £'000	Asset Management £'000	Principal Finance £'000	Consolidated £'000
Point in time	25,129	5,297	1,760	32,186
Over time	2,101	7,609	-	9,710
	27,230	12,906	1,760	41,896

4. Operating Profit

	2018 £'000	2017 £'000
Operating profit has been arrived at after (charging)/ recognising:		
Share of results of associates	**-**	805
Depreciation	**(1,262)**	(891)
Balance sheet impairments	**-**	(1,883)
Property lease rentals	**(1,046)**	(1,152)
Exchange differences, excluding those arising on financial instruments		
Exchange differences	**82**	32

Share of results of associates in the prior year comprised income from Puma Social Care Investments Limited, an entity incorporated in Guernsey which was launched and in which the Group invested in 2017. At the end of 2017, Puma Social Care Investments Limited had largely divested itself of its funds and ceased trading hence the Group retains a 33% interest of immaterial value. It is accounted for using the equity method described in note 1.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

5. Interest Income

	2018	2017
	£'000	£'000
Bank interest	**26**	8
Other interest receivable	**17**	87
	43	95

6. Finance Costs

	2018	2017
	£'000	£'000
Interest on bank overdrafts and loans	**380**	430
	380	430

7. Employees and Directors

a) Employee numbers

The average number of employees, including Executive Directors, employed by the Group during the financial year was:

		2018	2017
		No.	No.
Capital Markets	- Securities	**83**	80
	- Corporate Advisory	**14**	15
Asset Management		**81**	68
		178	163

b) The costs incurred in respect of these employees comprise

	2018	2017
	£'000	£'000
Salaries and commission	**19,449**	18,819
Social security costs	**2,253**	2,099
Pension costs	**390**	293
	22,092	21,211

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

7. Employees and Directors (continued)

c) Employee Share Option Plan

The Group maintains a Share Option Plan (the "Plan") under which present and future employees of the Group may be granted options to subscribe for new share capital of the Company. The Plan is used to attract and retain high-calibre employees to continue to develop and expand the business of the Group. Such options are granted by the Board at a price no less than the average quoted market price of the Company's ordinary share on the date of grant. Options granted under the Plan are subject to vesting periods which are based on continuing service. Thereafter the options may be exercised for the rest of their 10 year life without further test. Options are forfeited if the employee chooses to leave the Group before the options vest under certain circumstances. If an employee holding vested options leaves the Group, the options held must be exercised within 6 months of the date of leaving. As at 31 December 2018, there were 942,727 (2017: 1,007,727) options in issue under the Plan that were exercisable at prices ranging from 110p to 335p. Details of the share options outstanding during the year were as follows:

	2018		2017	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at beginning of year	**1,007,727**	**188p**	1,553,856	188p
Granted during the year	**-**	**n/a**	200,000	250p
Cancelled during the year	**(65,000)**	**275p**	-	Na
Exercised during the year	**-**	**n/a**	(746,129)	205p
Outstanding at the end of the year	**942,727**	**182p**	1,007,727	188p
Exercisable at the end of the year	**809,394**		807,727	

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 5.3 years (2017: 3.2 years).

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

7. Employees and Directors (continued)

d) Emoluments of the Directors of the Company

2018

	Gross salary £'000	Bonus, commission and other income £'000	Benefits £'000	Total £'000
Howard Shore	**200**	**-**	**14**	**214**
Lynn Bruce	**45**	**-**	**-**	**45**
Simon Fine	**250**	**-**	**3**	**253**
David Kaye	**300**	**-**	**2**	**302**
Dr Zvi Marom	**45**	**-**	**-**	**45**
James Rosenwald III	**45**	**-**	**-**	**45**
	885	**-**	**19**	**904**

2017

	Gross salary £'000	Bonus, commission and other income £'000	Benefits £'000	Total £'000
Howard Shore	200	300	27	527
Lynn Bruce	45	-	-	45
Simon Fine	238	51	3	292
David Kaye	288	-	4	292
Dr Zvi Marom	45	-	-	45
James Rosenwald III	45	-	-	45
	861	351	34	1,246

e) The following options over unissued ordinary shares of nil par value have been granted to the directors:

	Number of options over unissued ordinary shares	Date of grant	Exercise price per ordinary share	Last Exercise date
David Kaye	245,000	Various between 2009 to 2012	250p	Various between 5 January 2019 to 5 January 2024
Simon Fine	472,727	21 November 2002	110p	5 January 2024

The closing price of the ordinary shares at 31 December 2018 was 215.0p (2017: 207.5p) and the range during the year was 207.5p to 290.0p.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

7. Employees and Directors (continued)

f) Related party transactions

The Directors and all other staff are entitled to deal in securities through a subsidiary company in accordance with in-house dealing rules, which include the provision that staff are entitled to reduced commission rates.

The Directors are of the opinion that such transactions are not material to either the Group or the individual concerned.

Transactions between Group companies comprise management charges for central overheads which are recharged throughout the Group.

The Group received income from Puma Brandenburg Limited ("PBL") as follows: £699,000 (2017: £965,000) to The Lily Partnership Limited and £2,464,000 (2017: £2,493,000) to Puma Property Investment Advisory Limited. Amounts owed to the Group at the year end from PBL were £1,925,000 (2017: £908,000). PBL is a related party as it has a high degree of common ownership.

See also note 17 for detail on the Group's acquisition of EA Capital in the year.

g) Compensation of key management personnel

Excluding Directors of the parent company (see note 7.d) the remuneration of key management during the year was as follows:

	2018	2017
	£'000	£'000
Salaries and other short-term benefits	**2,345**	2,619

Notes to the Financial Statements (continued)

For the financial year ended 31 December 2018

8. Taxation

The tax charge comprises:	**2018** **£'000**	2017 £'000
Current tax	**405**	1,176
Prior year underprovision	**64**	(69)
Movement in deferred tax	**16**	(195)
	485	912

Tax in Guernsey is charged at 0%. Tax on the Group's UK subsidiaries is charged at 19% (2017: 19.25%).

	2018 **£'000**	2017 £'000
Profit on ordinary activities before tax	**4,068**	4,577
Tax thereon at 0% (2017: 0%)	**-**	-
Effects of:		
Effect of different tax rates in other jurisdictions	**421**	981
Prior year adjustment	**64**	(69)
	485	912

On 1 April 2017, the rate of UK corporation tax was reduced to 19%. The average tax rate on the profit before tax for the Group's UK activities for 2018 was therefore 19% (2017: 19.25%). Finance Act 2016 included provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020. The Group has used 19% to calculate the deferred tax. To the extent that deferred tax reverses at a different rate from that at which it is recognised, this will change the impact on the net deferred tax liability.

Deferred Taxation	**Share-based payments £'000**	**Temporary differences £'000**	**Total £'000**
At 1 January 2017	152	(167)	(15)
(Debit)/credit to income statement	(2)	197	195
Credit comprehensive income	-	(20)	(20)
Debit to equity	(62)	-	(62)
Retranslation movement	-	51	51
At 31 December 2017	88	61	149
Debit to income statement	-	(16)	(16)
Retranslation movement	-	(25)	(25)
At 31 December 2018	**88**	**20**	**108**

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

9. Rates of Dividends Paid and Proposed

	2018	2017
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2016 of 5.0p per share	**-**	1,088
Interim dividend for the year ended 31 December 2017 of 5.0p per share	**-**	1,079
Final dividend for the year ended 31 December 2017 of 5.0p per share	**1,079**	-
Interim dividend for the year ended 31 December 2018 of 5.0p per share	**1,079**	-
	2,158	2,167

The directors propose a final dividend of 5.0p per share, bringing the total for the year ended 31 December 2018 to 10.0p per share (2017: 10.0p per share).

10. Earnings per Share

The earnings and number of shares in issue or to be issued used in calculating the earnings per share and diluted earnings per share in accordance with IAS 33 were as follows:

As at 31 December 2018 there were 21,573,322 ordinary shares in issue (2017: 21,573,322). Movements in the number of shares in issue during the year are set out in note 25.

	2018		2017	
	Basic	**Diluted**	Basic	Diluted
Earnings (£)	**2,727,000**	**2,727,000**	2,826,000	2,826,000
Number of shares	**21,573,322**	**21,840,354**	21,645,329	22,019,172
Earnings per share (p)	**12.6**	**12.5**	13.1	12.8

Calculation of number of shares	**2018**		2017	
	Basic	**Diluted**	Basic	Diluted
Weighted average number of shares	**21,573,322**	**21,573,322**	21,645,329	21,645,329
Dilutive effect of share option schemes	**-**	**267,032**	-	373,843
	21,573,322	**21,840,354**	21,645,329	22,019,172

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

11. Lease Commitments

At 31 December 2018 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Operating leases recognised as an expense during the year:	**1,046**	1,152

Operating leases Total future minimum lease payments under operating leases:	2018 £'000	2017 £'000
Amounts payable in under one year	**499**	1,090
Amounts payable between one and five years	**1,071**	1,343
Amounts payable between five and ten years	**377**	597
	1,947	3,030

Operating lease payments represent rentals payable by the Group for its office premises.

On 12 March 2019 the Group signed a 10 year occupational lease with a 5 year break clause for its new London office. A further description of the impact this will have on the Group's 2019 Annual Report & Accounts is shown under Accounting policies in Note 1.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

12. Categories of Financial Assets and Liabilities

As at 31 December 2018	Fair value through profit or loss	Amortised cost	Total
	£'000	£'000	£'000
Financial assets			
Cash and cash equivalents	-	31,015	31,015
Trading assets	9,837	-	9,837
Trade receivables in the course of collection	-	33,692	33,692
Investment properties	2,643	-	2,643
Financial investments	5,357	-	5,357
Contract balances	-	5,034	5,034
Other assets	-	3,332	3,332
	17,837	73,073	90,910
Goodwill			381
Intangible assets			2,263
Property, plant & equipment			7,653
Deferred tax asset			108
Total assets per balance sheet			**101,315**
Financial liabilities			
Bank overdrafts and borrowings	-	4,299	4,299
Trading liabilities	708	-	708
Trade creditors in the course of collection	-	19,530	19,530
Derivatives	135	-	135
Other liabilities	-	2,684	2,684
	843	26,513	27,356
Accruals			5,663
Tax liabilities			165
Provision for liabilities and charges			68
Total liabilities per balance sheet			**33,252**

Financial assets and liabilities not held at fair value are held at a carrying value considered to be approximate to the fair value.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

12. Categories of Financial Assets and Liabilities (continued)

As at 31 December 2017	Designated at fair value £'000	Held for trading £'000	Loans and receivables £'000	Available-for-sale securities £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Financial assets						
Cash and cash equivalents	-	-	-	-	35,673	35,673
Trading assets	562	7,592	-	-	-	8,154
Trade receivables in the course of collection	-	-	-	-	46,610	46,610
Principal Finance investments	5,962	-	-	513	-	6,475
Derivatives	-	32	-	-	-	32
Accrued income	-	-	3,955	-	-	3,955
Other assets	-	-	-	-	2,202	2,202
	6,524	7,624	3,955	513	84,485	103,101
Goodwill						381
Intangible assets						2,229
Property, plant & equipment						7,699
Deferred tax asset						149
Total assets per balance sheet						**113,559**
Financial liabilities						
Bank overdrafts and borrowings	-	-	-	-	9,726	9,726
Trading liabilities	-	1,017	-	-	-	1,017
Trade creditors in the course of collection	-	-	-	-	26,398	26,398
Derivatives	-	12	-	-	-	12
Other liabilities	-	-	-	-	1,699	1,699
	-	1,029	-	-	37,823	38,852
Accruals						6,505
Tax liabilities						966
Provision for liabilities and charges						66
Total liabilities per balance sheet						**46,389**

Financial assets and liabilities not held at fair value are held at a carrying value considered to be approximate to the fair value.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

13. Goodwill

	2018 £'000	2017 £'000
Goodwill	**381**	381

The goodwill balance relates to the acquisition of shares of Shore Capital Markets Limited.

There has been no impairment in the value of the asset, as the business continues to generate profits and positive cashflows and is forecast to do so for the foreseeable future.

14. Intangible assets

	Total £'000
Cost	
At 1 January 2017	2,135
Retranslation movement	94
At 31 December 2017	2,229
Retranslation movement	34
At 31 December 2018	**2,263**
Carrying amount	
At 31 December 2018	**2,263**
At 31 December 2017	2,229

The intangible assets represent the spectrum licences acquired through the acquisition of DBD, which owns spectrum licences in Germany, comprising a series of regional licences that run into perpetuity.

There has been no impairment in the value of the asset. Management consider the carrying value not to be in excess of the fair value less costs to sell. The fair value has been determined with reference to external market transactions. No reasonable change in assumptions would lead to an impairment charge.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

15. Property, Plant and Equipment

	Leasehold premises	Fixtures and equipment	Rental asset	Motor vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2017	890	4,207	16,543	349	21,989
Additions	-	658	-	23	681
Disposals	-	(5)	-	(132)	(137)
Retranslation movement	-	15	(1,435)	3	(1,417)
At 31 December 2017	890	4,875	15,108	243	21,116
Additions	-	882	-	-	882
Disposals	-	(57)	-	-	(57)
Retranslation movement	-	4	880	1	885
At 31 December 2018	**890**	**5,704**	**15,988**	**244**	**22,826**
Depreciation					
At 1 January 2017	890	3,032	8,517	127	12,566
Charge for the year	-	394	477	20	891
Impairment for the year	-	-	772	-	772
Retranslation movement	-	12	(789)	22	(755)
Disposals	-	-	-	(57)	(57)
At 31 December 2017	890	3,438	8,977	112	13,417
Charge for the year	-	459	790	13	1,262
Retranslation movement	-	4	557	-	561
Disposals	-	(67)	-	-	(67)
At 31 December 2018	**890**	**3,834**	**10,324**	**125**	**15,173**
Net Book Value					
At 31 December 2018	**-**	**1,870**	**5,664**	**119**	**7,653**
At 31 December 2017	-	1,437	6,131	131	7,699

The Group carries out an annual review of the recoverable amount of the rental asset used in the Principal Finance reporting segment. The Group estimated the fair value less costs of disposal of the rental asset at £5,664,000, based on a review of the market values of comparable assets.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

16. Investment property

	Total
	£'000
At 1 January 2017	2,885
Disposals	(2,885)
At 31 December 2017	-
Additions	2,643
At 31 December 2018	**2,643**

Additions of £2,643,000 arose in the year as a result of the Group's acquisition of EA Capital Limited. Further details of this acquisition are shown in note 17. The investment properties acquired in the year were externally valued as part of the acquisition. The Directors consider this valuation to remain appropriate as at 31 December 2018.

17. Principal Finance Investments

	Listed investments	Unlisted investments	Total
	£'000	£'000	£'000
At 1 January 2017	1,676	6,545	8,221
Disposals	-	(314)	(314)
Revaluation in the year	(180)	(140)	(320)
Impairment loss	-	(1,112)	(1,112)
At 31 December 2017	1,496	4,979	6,475
Additions	26	777	803
Disposals	(946)	(1,342)	(2,288)
Revaluation in the year	78	289	367
At 31 December 2018	**654**	**4,703**	**5,357**

Classification	Fair value through profit or loss	Total
	£'000	£'000
At 31 December 2018	**5,357**	**5,357**

	Available-for-sale	Fair value through profit or loss	Total
	£'000	£'000	£'000
At 31 December 2017	513	5,962	6,475

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

17. Investments (continued)

Additional information on principal subsidiaries

Subsidiary		Country of registration and principal place of business	Activity	Proportion of ordinary shares and voting rights held
Trading Companies				
Shore Capital Group Treasury Limited		Guernsey	Treasury company	100%
Shore Capital Group Investments Limited		Guernsey	Holds investments	100%
Puma Property Investment Advisory Limited		Guernsey	Advisory services	100%
Spectrum Investments Limited	[1]	Guernsey	Holds investments	59.9%
DBD Deutsche Breitband Dienste		Germany	Telecoms	100%
Shore Capital Markets Limited	[2]	England and Wales	Intermediate Holding Co.	79.7%
Shore Capital Stockbrokers Limited	[2]	England and Wales	Broker/dealer	100%
Shore Capital and Corporate Limited	[2]	England and Wales	Corporate advisers	100%
Shore Capital International Asset Management Limited	[3,6]	Guernsey	Intermediate Holding Co.	73.9%
Puma Investment Management Limited	[3,4,5]	England and Wales	Fund Management	91.3%
Shore Capital Limited	[3]	England and Wales	Fund Management	100%
Shore Capital Group plc		England and Wales	Intermediate Holding Co.	100%
Shore Capital Treasury Limited		England and Wales	Treasury company	100%
Shore Capital International Limited		England and Wales	Advisory services	100%
Shore Capital Management Limited	[7]	England and Wales	Member of an LLP	100%
Puma Property Finance Limited	[4]	England and Wales	Fund Management	100%
Puma Private Equity Limited	[5]	England and Wales	Fund Management	76.0%
EA Capital Limited	[6]	Isle of Man	Intermediate Holding Co.	75.0%
EA Northampton Limited	[6]	England and Wales	Holds investment property	100%
EA Bedford Limited	[6]	England and Wales	Holds investment property	100%
Limited Liability Partnerships				
The Lily Partnership LLP		England and Wales	Asset rental business	80%
Nominee Company				
Puma Nominees Limited		England and Wales	Nominee company	100%

[1] Spectrum Investments Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, DBD Deutsche Breitband Dienste. As at 31 December 2018, the Company had a direct holding of 59.9% in Spectrum Investments Limited. The balance of the shares in Spectrum Investments Limited are held by external investors.

[2] Shore Capital Markets Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited. As at 31 December 2018 the Company had a direct holding of 79.7% in Shore Capital Markets Limited. The balance of the shares in Shore Capital Markets Limited are held by senior executives of that company and its subsidiaries.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

17. Investments (continued)

[3] Shore Capital International Asset Management Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, Shore Capital Limited. As at 31 December 2018 the Group had a direct holding of 73.9% in Shore Capital International Asset Management Limited. The balance of the shares is held by the senior executive of that company. Shore Capital Limited is the intermediate holding company of, and holds 91.3% of the ordinary shares and voting rights in, Puma Investment Management Limited. The balance of the shares in Puma Investment Management Limited are held by senior executives of that company. Puma Investment Management Limited received £30,000 investment from non-controlling interests.

[4] Puma Investment Management Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, Puma Property Finance Limited.

[5] Puma Investment Management Limited is the intermediate holding company of, and holds 76.0% of the ordinary shares and voting rights in, Puma Private Equity Limited. The balance of the shares are held by senior executives of that company.

[6] Shore Capital International Asset Management Limited is the intermediate holding company of, and holds 75.0% of the ordinary shares and voting rights in, EA Capital Limited. EA Capital Limited holds 100% of the ordinary shares and voting rights in EA Northampton Limited and EA Bedford Limited.

[7] Shore Capital Management Limited received investment in the year of £5,128,000 of which £1,283,000 came from non-controlling interests.

Non-controlling interests
Summarised financial information about subsidiaries in the Group with non-controlling interests is as follows:

			Relating to non-controlling interests		
	Profit/(loss) for the year	Net assets at 31 December 2018	Profit/(loss) for the year	Net assets at 31 December 2018	Dividends paid in the year
	£'000	£'000	£'000	£'000	£'000
Spectrum Investments Limited / DBD	(593)	3,925	(243)	1,601	-
Shore Capital Markets Limited	3,224	33,321	654	6,769	960
Puma Investment Management Limited	(2)	1,575	5	221	243
Puma Private Equity Limited	616	116	148	28	120
EA Capital Limited	59	823	1	55	15
Shore Capital International Asset Management Limited	2,495	2,915	652	948	605
Shore Capital Management Limited	(1,780)	1,808	(356)	332	-
Puma Ranger Limited	(31)	-	(5)	-	-
			856	9,954	1,943

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

17. Investments (continued)

Business combination

On 24 May 2018 the Group acquired 75% of the ordinary share capital and 77,088 £10 preference shares offering a 10% preferred return in EA Capital Limited, a limited company registered in the Isle of Man. EA Capital Limited has two UK registered subsidiaries, EA Northampton Limited and EA Bedford Limited (together "EA Capital"), whose primary activity is to hold UK residential property for investment purposes, which is also the primary reason for the acquisition.

The stake in EA Capital was acquired from Specialist Investment Properties Plc, a related party of the group by virtue of its investment adviser, Puma Investment Management Limited, being a subsidiary of the Group.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Book value	Fair value adjustment	Fair value of assets and liabilities acquired
	£'000	£'000	£'000
Investment properties	2,583	60	2,643
Cash	66	-	66
Trade debtors	28	-	28
Financial liabilities	(1,770)	-	(1,770)
	907	60	967
Non-controlling interests	-	-	(75)
	907	60	892

Consideration of £892,000 was paid in cash, which is equivalent to the fair value of the identifiable assets and liabilities acquired and therefore no goodwill arose. The acquisition was partly funded by a loan of £1.9 million extended to the Group by Heritage Square Limited, of which £1.74 million was used to refinance the borrowings of EA Capital as of the date of acquisition. The loan from Heritage Square Limited was repaid during the year. Heritage Square Limited is a related party of the Group as its trading adviser is Puma Investment Management Limited.

The fair value of the financial assets includes receivables with a fair value and a gross contractual value of £28,000. All of this balance has been collected since acquisition.

Non-controlling interests of £75,000 were recognised at the acquisition date

Acquisition related costs included in administrative expenses are £20,000.

EA Capital contributed £182,000 to revenue and £59,000 to the Group's profit for the period between the date of acquisition and the balance sheet date. If the acquisition of EA Capital had been completed on the first day of the year, group revenues and pre-tax profits for the year would have been higher by £119,000 and £38,000 respectively.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

18. Trading assets

	2018 £'000	2017 £'000
Fair value through profit or loss		
Listed holdings at market value		
Equities	**4,157**	4,778
Debt instruments	**2,815**	2,814
	6,972	7,592
Unlisted holdings:		
Other	**2,865**	562
	2,865	562
	9,837	8,154

The fair value of financial assets has been determined as follows:

1. for listed holdings the fair value is determined, in whole, by reference to published price quotations; and
2. for unlisted holdings the fair value is estimated wherever possible using observable market prices or rates. Where none exist, the fair value is determined by the Directors at the most recent available representative arm's length price or valuation. The fair value of the largest holding has been estimated based on the net asset value of the investee company which itself is based on external professional property valuations.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

19. Trade and Other Receivables

	2018	2017
	£'000	£'000
Trade receivables	**33,692**	46,610
Other receivables	**3,332**	2,202
Prepayments and contract balances	**5,034**	3,955
	42,058	52,767

The Directors consider that the carrying value of trade and other receivables approximates to their fair value. The table below shows the ageing of trade debtors which are past their due date for payment but not impaired.

	2018	2017
	£'000	£'000
Between 30 and 60 days	**18**	23
Between 60 and 90 days	**172**	126
Greater than 90 days	**180**	150
	370	299
Amounts not yet due for payment	**41,688**	52,468
Trade receivables	**42,058**	52,767

	£'000
Movement in the allowance for expected credit losses	
At 1 January 2017	72
Increase in the allowance	12
Amounts written off	(68)
At 31 December 2017	16
Increase in the allowance	12
Amounts written off	(16)
At 31 December 2018	**12**

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

20. Cash and Cash Equivalents

Analysis of Changes in Net Funds

	As at 1 January 2018	Cash flows	**As at 31 December 2018**
	£'000	£'000	**£'000**
Cash at bank and in hand	35,673	(4,658)	**31,015**
	35,673	(4,658)	**31,015**

21. Trade and Other Payables

	2018	2017
	£'000	£'000
Trade creditors	**19,530**	26,398
Other creditors	**1,184**	565
Other taxation and social security	**1,500**	1,134
Accruals and contract liabilities	**5,663**	6,505
	27,877	34,602

The Directors consider that the carrying value of trade and other payables approximates their fair value.

22. Borrowings

	Total
	£'000
At 1 January 2017	11,080
Loan repayments	(394)
Retranslation movement	(960)
At 31 December 2017	9,726
Loan repayments	(12,192)
New borrowings	4,458
Acquisition	1,740
Retranslation movement	566
At 31 December 2018	**4,299**

	2018	2017
	£'000	£'000
Bank loans at amortised cost	**4,299**	9,726
Amount due to be repaid within 12 months	**4,299**	9,726

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

22. Borrowings (continued)

	USD loan facility £'000	Total £'000
As at 31 December 2018		
Bank loans	4,299	**4,299**
	4,299	**4,299**

	USD loan facility £'000	Total £'000
As at 31 December 2017		
Bank loans	9,726	9,726
	9,726	9,726

The Group has a GBP revolving credit facility of £20,000,000 which is secured by a floating charge over the assets of the Group's stockbroking subsidiary. This facility was undrawn as at 31 December 2017 and 31 December 2018.

The weighted average interest rates paid during the year were as follows:

Effective interest rates

	2018 %	2017 %
Bank overdrafts	**2.70**	2.25
Bank loans	**4.33**	3.10

The other principal features of the Group's borrowings are as follows.

(i) Sterling based facilities of £20,000,000 comprising a revolving credit advance facility. Under this facility, the Group has the option to draw down an amount for a fixed period of time. The facility was not used during the year and was undrawn as at 31 December 2018.

(ii) On 29 March 2018, the Group repaid in full the balance due on its USD amortising loan. The loan was secured by a charge over the Group's rental asset. The loan carried an interest rate at 1.0% above 3 month USD LIBOR.

(iii) On 29 March 2018, the Group drew down a new loan of $5,485,000 in its asset rental subsidiary and for which the Group has liability for 80%. The principal is repayable in one instalment on 31 March 2019. The loan is secured by a charge over the Group's rental asset. The loan carries an interest rate of 2.25% above 1 month USD LIBOR.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

23. Provision for Liabilities and Charges

Provision for National Insurance contributions on share options:	**2018**	2017
	£'000	£'000
At 1 January	**66**	**104**
Debit/ (credit) in the year	**2**	**(38)**
At 31 December	**68**	**66**

This provision will be utilised when staff exercise their options during the period of 1 January 2019 to 5 January 2024.

24. Capital Commitments

There were no amounts which were contracted for but not provided in the financial statements (2017: £nil). During 2015, the Company made a commitment of €12.5 million to Brandenburg Realty Limited of which €7.88 million was undrawn as at 31 December 2018.

25. Share Capital

Shore Capital Group Limited - ordinary shares of nil par value	**Number of shares**	**£'000**
At 1 January 2017	21,768,791	-
Shares repurchased and cancelled	(941,598)	-
Shares issued	746,129	-
At 31 December 2017 and 31 December 2018	21,573,322	-

Notes to the Financial Statements (continued)

For the financial year ended 31 December 2018

26. Financial Instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt (see note 22), cash and cash equivalents (see note 20), and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings (see Consolidated Statement of Changes in Equity).

The Group's financial instruments comprise cash and liquid resources, trade and other receivables and trade and other payables, trading assets and liabilities in equities, financial assets designated at fair value and derivative instruments.

The profit and loss arising from dealings in financial instruments is included within Revenue. This is analysed by financial instrument as follows:

Net gains or losses arising from dealings in financial instruments	**Fair value through P&L £'000**	**Total £'000**
2018		
Equities	**7,878**	**7,878**

2017	Designated at fair value £'000	Fair value through P&L £'000	Available-for-sale securities £'000	Total £'000
Equities	(1,419)	10,506	(14)	9,073
Debt	61	-	-	61
	(1,358)	10,506	(14)	9,134

The main risks arising from the Group's financial instruments are market risk, currency risk, interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

a) Market Risk

The Group is exposed to market risk in respect of its trading in equities and other holdings. The carrying value at the year end of positions arising from these activities as disclosed in note 18 for trading assets and the carrying value of the trading liabilities as disclosed on the face of the balance sheet are equal to their fair value.

Other holdings mainly comprise of other investments that are held in the Principal Finance division.

The year end positions arising from market-making activities are in line with those maintained throughout 2018. Both the permitted size of each trading book and the size of individual positions are predetermined and dealers are set prescribed limits within which they can deal. Day-to-day risk monitoring is carried out by the Head of the Capital Markets division, the Finance Department and the Compliance Department.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

26. Financial Instruments (continued)

a) Market Risk (continued)

Based on a 10% movement in the market price of equities, with all other variables remaining unchanged, the effect on profit for the year and equity would be as set out in the table below. The Group's sensitivity to equity prices has not changed significantly from the prior year.

			2018			2017
		Change in price of UK equities	**Effect on profit and on equity**		Change in price of UK equities	Effect on profit and on equity
	£'000	**%**	**£'000**	£'000	%	£'000
Trading assets - equities (note 18)	**4,157**	**10%**	**416**	4,778	10%	478
Trading liabilities	**(708)**	**10%**	**(71)**	(1,017)	10%	(102)
Listed Principal Finance Investments	**654**	**10%**	**65**	1,496	10%	150

b) Currency Risk

Other than borrowings as set out in note 22, the Group's foreign currency cash and bank balances at the year end were not material and are not separately disclosed in the financial statements. Where relevant, currency is bought or sold at the time of trading in order to meet the funds due or receivable on settlement.

The fair value at the year end of Principal Finance investments, trading assets and other holdings which were denominated in foreign currencies was:

	2018	2017
	£'000	£'000
Held in United States dollars	**196**	184
	196	184

The Group enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of trading assets and other holdings. These forward contracts are fair valued at the balance sheet date on a discounted cash flow basis using relevant market data on foreign exchange and interest rates, with any change in value taken to the income statement.

As at the year end the fair value of forward contracts which were hedging trading assets and other holdings was a net liability of £135,000 (2017: £20,000 net asset). The related notional contracts as at 31 December 2018 were £5,143,000 (2017: 7,052,000). These were all due to mature in January 2019.

Included in the £5,143,000 notional contracts, is an amount for £1,755,000 ($2,240,000) which the Group has designated as a cashflow hedge under IFRS 9. Changes in the fair value of the hedging instruments during the period are reflected as a component of equity to the extent the hedge is effective. This equated to £201,000 with the ineffective portion of £30,000 being recorded in the income statement.

The table below illustrates the sensitivity of the profit for the year and of equity with regards to currency movements on net currency exposure.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

26. Financial Instruments (continued)

b) Currency Risk (continued)

Based on a 10% movement in the Euro and US Dollar against sterling exchange rates, the effect on profit for the year and equity would be as follows:

	2018		2017	
	Euro	**US Dollar**	Euro	US Dollar
	£'000	**£'000**	£'000	£'000
10% Stronger against GBP	**499**	**(368)**	364	(954)
10% Weaker against GBP	**(408)**	**301**	(298)	781

c) Interest Rate Risk

The Group's exposure to long-term fixed borrowings is set out in note 22.

The interest bearing financial assets and liabilities of the Group comprise cash and cash equivalents, bank overdrafts and bank borrowings as shown in the consolidated balance sheet. Cash and cash equivalents receive, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The Group has a £20m revolving credit facility which is renewable annually. This facility pays interest at rates linked to money market rates. During the year, the Group drew down a new loan of $5,485,000 in its asset rental subsidiary and for which the Group has liability for 80%. The principal is repayable in one instalment on 31 March 2019. The loan is secured by a charge over the Group's rental asset. The loan carries an interest rate of 2.25% above 1 month USD LIBOR. The bank borrowings are described in more detail in note 22.

A positive 100 basis point movement in interest rate applied to the average value of balance sheet items which are subject to floating interest rates would result in the following impact on profit for the year:

	2018	2017
	£'000	£'000
+100 basis point movement in interest rates	**88**	37
As percentage of total shareholders' equity	**0.151%**	0.063%

The Group would experience an equal and opposite impact on profit should the interest rate move by negative 100 basis points.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

26. Financial Instruments (continued)

d) Credit Risk

The Group's principal financial assets which are subject to credit risk are cash and cash equivalents, trade and other receivables.

The Group's cash and cash equivalents are held with a diversified range of banks, each of which is a major UK clearing bank.

The Group's main credit risk is attributable to its trade and other receivables. The amounts shown in the balance sheet arise from trading in equities. The Group seeks to deal with credit-worthy counterparties and the majority are financial institutions. As a result, the counterparties are generally subject to certain minimum capital requirements which serves to limit the credit risk to the Group.

The Group monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. Where available, external credit ratings and/or reports on customers and other counterparties are obtained and used. The carrying value of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group's top five trade receivables counterparty exposures are as follows:

	2018 **£'000**
TD Waterhouse	**11,102**
Hargreave Lansdown Stockbrokers	**5,113**
Barclays Investment Solutions	**1,176**
Jarvis Investment Mgmt	**1,040**
Redmayne Bentley	**725**
	19,156

	2017 £'000
TD Waterhouse	13,662
Hargreave Lansdown Stockbrokers	900
Barclays Bank	798
Redmayne Bentley	778
Simply Stockbroking	566
	16,704

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

26. Financial Instruments (continued)

e) Liquidity Risk

Ultimate responsibility for liquidity management rests with the board of Directors. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and borrowing facilities to meet its actual and forecast cash flows and matching maturity profiles of financial assets and liabilities. Note 22 includes details of undrawn facilities available to the Group.

Maturity profile of financial liabilities

The table below reflects the contractual maturities, including interest payments, of the Group's financial liabilities as at 31 December:

2018	Repayable on demand	Due within 3 months	Due between 3 months and 12 months	Due between 1 year and 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Trading liabilities	-	708	-	-	708
Trade payables	56	19,474	-	-	19,530
Derivatives – net settled	-	135	-	-	135
Bank loans and overdrafts	-	4,350	-	-	4,350
Other liabilities	-	2,683	-	-	2,683
	56	27,350	-	-	27,406

2017	Repayable on demand	Due within 3 months	Due between 3 months and 12 months	Due between 1 year and 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Trading liabilities	-	1,017	-	-	1,017
Trade payables	189	26,208	-	-	26,397
Derivatives – gross settled	-	2	-	-	2
Derivatives – net settled	-	-	10	-	10
Bank loans and overdrafts	-	9,794	-	-	9,794
Other liabilities	-	397	1,302	-	1,699
	189	37,418	1,312	-	38,919

The contractual maturities relating to the bank loans reflect gross cash flows, which differ to the carrying values of the liabilities at the balance sheet date.

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

26. Financial Instruments (continued)

f) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Based on the established fair value and model governance policies and the related controls and procedural safeguards the Group employs, management believe the resulting estimates in fair values recorded in the statement of financial position are reasonable and the most appropriate at the balance sheet date.

For trading assets and liabilities, financial assets and liabilities designated at fair value and financial investments through other comprehensive income which are listed or otherwise traded in an active market, for exchange-traded derivatives, and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices (level 1).

For financial instruments which do not have quoted market prices directly available from an active market, fair values are estimated using valuation techniques, based wherever possible on assumptions supported by observable market prices or rates prevailing at the balance sheet date (level 2). This is the case for some unlisted investments and other items which are not traded in active markets.

For some types of financial instruments, fair values cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported by observable market prices or rates. This is the case for certain unlisted investments. In these cases, fair value is estimated indirectly using valuation techniques for which the inputs are reasonable assumptions, based on market conditions (level 3).

At 31 December 2018	**Level 1**	**Level 2**	**Level 3**	
	Quoted market price	**Market observable inputs**	**Non-market observable inputs**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Principal Finance Investments	654	-	4,703	5,357
Trading assets	9,837	-	-	9,837
Total financial assets	**10,491**	**-**	**4,703**	**15,194**
Trading liabilities	708	-	-	708
Derivative financial instruments	-	135	-	135
Total financial liabilities	**708**	**135**	**-**	**843**

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

26. Financial Instruments (continued)

f) Fair value of financial instruments (continued)

At 31 December 2017	Level 1	Level 2	Level 3	
	Quoted market price	Market observable inputs	Non-market observable inputs	Total
	£'000	£'000	£'000	£'000
Principal Finance Investments	1,496	-	4,979	6,475
Trading assets	8,154	-	-	8,154
Derivative Financial instruments	-	32	-	32
Total financial assets	**9,650**	**32**	**4,979**	**14,661**
Trading liabilities	1,017	-	-	1,017
Derivative Financial instruments	-	12	-	12
Total financial liabilities	**1,017**	**12**	**-**	**1,029**

Included in the fair value of financial instruments carried at fair value in the statement of financial position are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates (level 3). For such financial instruments, the Directors have generally made reference to published net asset values (derived by the manager of such investments) and used judgement over the use of those net asset values. The net asset values are generally derived from the underlying portfolios which are themselves valued using unobservable inputs. The significant unobservable inputs comprise the long term revenue growth rate, long term pre-tax operating margin and discounts for lack of marketability. A change in any of these inputs may result in a change in the fair value of such investments.

There may be uncertainty about a valuation, resulting from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting such uncertainties and are deduced from the fair value produced by valuation techniques.

There have been no significant movements between Level 1 and Level 2 during the year.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2018	Gains recorded in profit or loss	Purchases and transfers	Sales and transfers	At 31 December 2018
	£'000	£'000	£'000	£'000	£'000
Total financial assets	**4,979**	**1,036**	**777**	**(2,089)**	**4,703**

Notes to the Financial Statements (continued)
For the financial year ended 31 December 2018

27. Regulatory Capital

Capital resources*, capital requirements and surplus capital at the balance sheet dates were as follows:

	2018 £'000	2017 £'000
Group		
Capital resources per statement of financial position	**68,063**	67,170
Less non EU resources	**(31,106)**	(32,127)
Capital resources	**36,957**	35,043
Less Capital Resources Requirement	**(10,926)**	(8,988)
Surplus capital resources	**26,031**	26,055

The Group's lead regulator is the Financial Conduct Authority (FCA) in the UK. Four of the Group's operating subsidiaries are regulated by the FCA which imposes a minimum level of regulatory capital which must be maintained by each company and also an overall level of regulatory capital which must be maintained by the Group's UK businesses*. The Group has maintained a surplus throughout the year over its regulatory capital requirements.

As a result of the Group's history of strong organic growth, retained reserves have been the primary source of capital resources. The Group's balance sheet is strong and it continues to generate cash from its operations.

Capital resources are largely comprised of share capital and reserves. Capital requirements are derived from credit risk, market risk and operational risk considerations.

* The calculation of Capital Resources for the purposes of these rules only permits the inclusion of resources that are located in EU countries. Accordingly, the amount of Capital resources as presented in the table above excludes the assets and liabilities that are held by the Group's Guernsey based companies.

28. Subsequent events

(i) On 13 February 2019 Shore Capital Markets Limited, a subsidiary of the Group, agreed the acquisition of the entire issued share capital of Stockdale Securities Limited ("Stockdale") for an initial consideration of £4.9 million and a maximum deferred consideration of up to £4.0 million. Stockdale is authorised and regulated by the Financial Conduct Authority and completion of the acquisition is expected to take place on 31 March 2019.

(ii) On 12 March 2019 the Group signed a 10 year occupational lease with a 5 year break clause for its new London office. A further description of the impact this will have on the Group's 2019 Annual Report & Accounts is shown under Accounting policies in Note 1.

(iii) On 21 March 2019 the Group announced that the German Telecoms Regulator ("BNetzA") has concluded that the 32 regional radio spectrum licences held by DBD shall be reallocated from the 3.5 GHz frequency band to the 3.700-3.730 GHz frequency band at no cost. The licences will continue to be for perpetual duration, on a "flexibilised" basis, meaning without historic technical restrictions limiting their usage. The flexibilisation will enable their use for modern services such as 4G and 5G.