Shore Capital

Pillar 3 Disclosure

May 2013

1 Background

1.1 Regulatory framework

The Capital Requirements Directive (CRD) is the regulatory capital framework for the implementation of the Basel II accord across the European Union. The CRD sets out the amount of capital that financial services firms must hold and consists of three pillars:

- Pillar 1 – Minimum Capital Standards: sets out the minimum capital requirements for credit, market and operational risk;
- Pillar 2 – Supervisory Review Process: under which the firm and its supervisor assess whether the firm should hold additional capital against risks not covered under Pillar 1; and
- Pillar 3 – Market Discipline: requires the firm to disclose certain details of its risks, capital and risk management.

1.2 Basis of disclosure

This document has been completed in compliance with the Pillar 3 disclosure requirements as set out in BIPRU 11 of the Financial Conduct Authority ("FCA") Handbook. The disclosures made within this document are not subject to audit or external verification but have been reviewed and approved by senior management.

1.3 Frequency of disclosure

Disclosures are required to be made at least annually. These disclosures are made by reference to the reporting year end of Shore Capital (the "Group"), that being 31st December 2012.

1.4 Scope

The Pillar 3 disclosures herein are made at a consolidated level and take into account the following regulated subsidiaries:

- Shore Capital Stockbrokers Limited ("SCS")
- Shore Capital Limited ("SCL")
- Shore Capital & Corporate Limited ("SCC")

The businesses encompass various investment activities, including principal trading and agency broking in securities, corporate finance advice and corporate broking services, alternative fund management, and investment through its own balance sheet.

Senior management considers that this diversified business model is sound and is capable of withstanding economic stresses and downturns.

2 Risk management and governance

Shore Capital places considerable weight on the effective management of its exposures to risk. Its risk management policies are designed to identify, monitor and control such exposures to ensure that the activities of the operating divisions are managed within the risk appetite defined by the Group's board of directors.

Risk exposures are monitored and controlled by the head of each revenue generating business area in conjunction with senior management from Finance and Compliance. Responsibility for the approval of all risk management policies and for setting the overall risk tolerance levels is held by the Group board. The Group board is responsible for determining the overall risk appetite for the Group and this is implemented by divisional boards that are in turn responsible for approving their own risk management policies. Regular reports are provided which detail exposures to market risk, credit risk, liquidity risk and operational risk. The divisional boards receive regular updates from their respective Risk Committees who monitor the risks specific to each entity in the Group. Each Risk Committee has clearly defined responsibilities and agreed terms of reference.

The Group Audit Committee is responsible for the evaluation and maintenance of the Group's control framework and for ensuring that policies are in place to identify, monitor and control risk exposures throughout the Group.

The Group maintains a risk map in conjunction with its Internal Capital Adequacy Assessment Process (ICAAP) setting out the key risks which it has identified in its various business areas. The map shows the controls which have been implemented to mitigate each risk, thereby enabling the Group to identify readily those which pose the greatest risk. The map is reviewed periodically to ensure that it remains current and reflects any changes in the Group's risk appetite, activities and markets in which it operates as well as changes in the external environment.

2.1 Overview

The main categories of risk which require consideration are the following:

- Reputational risk;
- Market risk;
- Credit risk;
- Liquidity risk; and
- Operational risk.

Each of the risk categories are considered in further detail below.

2.2 Reputational risk

This is the risk of an event occurring which could adversely affect a firm's reputation. The effect could be a loss of confidence by clients which could in turn affect the firm's ability to generate income.

The Group considers reputational risk to be its key risk. It has numerous controls in place in all areas of the Group in order to minimise the possibility of an occurrence. The Groups' primary measures to mitigate reputational risk include:

- a high degree of emphasis on employing experienced, qualified, professional staff in both front office and support areas in order to ensure that high quality standards are upheld across the Group and that industry requirements are met;
- appropriate training to ensure that such standards are maintained;
- strict control over new business approvals and new clients taken on;
- compliance procedures covering, inter alia, conflicts of interest, complaints and fair treatment of customers;
- periodic reporting to divisional and Group boards.

2.3 Market risk

Shore Capital is exposed to equity risk through its holding of securities arising from its market making, trading and customer flow activities. Market risk on these equity positions arises from the volatility in equity price movements and this is managed daily within pre-defined limits set by senior management.

Market risk on securities is measured using the simplified approach as set out in BIPRU 7 of the FCA Handbook.

The Group's activities are undertaken primarily in pounds sterling and therefore the Group does not face any significant foreign exchange risk. Any foreign exchange risk that may arise is monitored on an intra-day and end of day basis and an appropriate capital requirement calculated as set out in BIPRU 7.

Market Risk	Risk Requirement (£000's)
Interest Rate PRR	142
Equity PRR	468
Foreign currency PRR	21
Total	**631**

2.4 Credit risk

The main credit risks in the Group relate to the potential failure by a counterparty or customer to settle a securities transaction; the non-payment of fees; and cash balances held at banks.

The Group seeks to deal only with creditworthy counterparties, the majority of which are financial institutions. As a result, the counterparties are generally subject to certain minimum capital requirements thereby limiting the credit risk to the Group. Furthermore, the credit risk associated with securities transactions is further limited by the fact that counterparty balances are settled on a delivery versus payment basis.

Outstanding fees due are monitored closely and strict payment terms are written into engagement letters. Transaction fees are typically received upon completion of the transaction.

The Group's cash balances are held with a number of deposit-taking institutions. The Group's two main bankers are currently rated A2 (Negative) and A3 by Moody's.

The Group uses the standardised approach to calculating credit risk as set out in BIPRU 3 of the FCA Handbook.

Credit exposures and corresponding capital resource requirements (£000's)

Asset	Value	Charge	Counterparty weight	Requirement
Cash & cash equivalents	5,246	8%	20%	84
Prepayments & Other receivables	492	8%	100%	39
Non-current assets	11,629	8%	100%	930
Total				**1,053**

2.5 Liquidity risk

The liquidity position of the Group is closely monitored and managed on a daily basis, adhering to the liquidity policies and controls that have been put in place. The Group's liquidity is subject to periodic stress testing to ensure the appropriateness of the Group's liquidity position and the adequacy of any liquidity buffer set.

2.6 Operational risk

The Group seeks to mitigate operational risk by maintaining appropriate controls. The Group employs experienced staff, maintains clear segregation of duties and clear lines of escalation. Outsourced relationships are monitored closely to ensure adherence to contractual obligations and service levels while business continuity plans are in place and are subject to periodic review and testing. Operational risk is further mitigated by professional indemnity insurance.

The Group has adopted the basic indicator approach under Pillar 1 for operational risk capital as set out in BIPRU 6 of the FCA Handbook.

3. Capital adequacy

The Group's Internal Capital Adequacy Assessment Process (ICAAP) documents senior management's approach and its assessment of the risk profile of the Group and the adequacy of its internal capital is set out in its ICAAP.

The ICAAP document is approved by the Group board and it includes an assessment of all of the material risks faced by the Group and the controls in place to identify, manage and mitigate those risks and ensures that sufficient capital is maintained to withstand resulting residual risk.

The Group calculates and reports its capital resources and capital resources requirements in accordance with the current FCA regulations. The table below illustrates the Group's capital resources* and capital resources requirements as at 31st December 2012.

	£000's
Tier 1 capital	32,213
Tier 2 capital	-
Tier 3 capital	-
Total capital resources after deductions *	32,213
Pillar 1 capital requirement:	
Market risk requirement	631
Credit risk capital component	1,053
Counterparty risk requirement	323
Operational risk requirement	4,848
Total Pillar 1 capital requirement	6,855
Pillar 2 add-on capital requirement	1,207
Total Pillar 2 capital requirement	8,062
Surplus capital	24,151
Solvency ratio: Pillar 1	470%
Solvency ratio: Pillar 2	400%

* The calculation of capital resources for the purposes of these rules only permits the inclusion of resources that are located in EU countries. Accordingly, following the re-organisation of the Group in March 2010, the amount of capital resources as presented in the table above for the year ended 31st December 2012 excludes the assets and liabilities that are held by the Group's non-EEA based companies.

4. Remuneration

The disclosures contained herein are in accordance with the FCA Handbook for Investment Firms contained within BIPRU 11.5: “Technical criteria on disclosure”.

4.1 Classification

Shore Capital is classified as a “Tier 3” Firm for the purposes of the Remuneration Code (SYSC 19A).
The parameters for each tier classification are found within the Remuneration Code, with Tier 3 including all BIPRU Investment Firms which hold Capital Resources of less than £100m.

4.2 Remuneration Committee

Shore Capital has appointed a Remuneration Committee which oversees the Group’s framework governing remuneration and reward. The members of the Committee are all non-executive directors and are therefore considered by the Group to be independent from the businesses.

4.3 The role of the relevant stakeholders

Senior management and Human Resources provide information to the Remuneration Committee where appropriate although they are not members of the Remuneration Committee.

4.4 The link between pay and performance

Remuneration payments by the Group comprise fixed and variable elements which are designed to reward performance. The variable pay element comprises an annual award which is determined either by reference to contractual agreements in place or on a discretionary basis. Performance is measured in a number of ways against agreed objectives for discretionary awards, the year end appraisal process being one significant element of this measurement.

The Group’s approach to remuneration has been formulated to reflect market practice on a role by role basis, with a sizeable proportion of awards being deferred to ensure that the award is able to reflect the performance over time and suitable claw-backs are in place which are triggered under certain events as per the provisions of the Remuneration Code.

4.5 Aggregate remuneration

The following information relates to the financial year ending 31st December 2012, and is presented in accordance with the provisions of BIPRU 11.5.18. The information below reflects both code staff and senior managers.

Fixed remuneration includes both gross salary and employer pension contributions where relevant. Variable remuneration includes cash bonuses subject to deferral which is subject to a claw-back in certain circumstances.

Aggregate remuneration:

Business Area	**Fixed Remuneration £000**	**Variable Remuneration £000**	**Total £000**
Investment Banking:			
Year ended 31st December 2012	2,285	2,117	4,402
Year ended 31st December 2011	2,058	1,022	3,080

The Group maintains a list of Code Staff employees who are identified in accordance with the provisions of the FSA Remuneration Code. The Group had 19 code staff as at 31st December 2012.