SHORE CAPITAL

EXCELLENCE INTEGRATED

Pillar 3 disclosure: Shore Capital Markets

Reporting reference date: 31 December 2019

1. Regulatory Framework

1.1 Purpose

This document sets out the disclosures as required by the Capital Requirements Directive[1] ("CRD IV") which represented the European Union's application of Basel III. Basel III sets out certain capital adequacy requirements standards and disclosure requirements to be implemented by regulated firms. Specifically, CRD IV prescribes 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.

The Pillar 3 disclosure requirements complement the minimum capital requirements of Pillar 1 and the risk based processes of Pillar 2 and are set out in Part 8 of the Capital Requirements Regulation[2] ("CRR") together with associated guidelines issued by the Financial Conduct Authority ("FCA") together with additional standards and guidance released by the European Banking Authority.

1.2 Scope

Shore Capital Markets Limited (the "Group") is a UK incorporated entity. It has two operating subsidiaries (together, the "Shore Capital Markets Group") which broadly specialise in capital markets activities. These include corporate finance advice, market making, research and sales services.

The Shore Capital Markets Group comprises three entities, two of which are authorised and regulated in the UK by the Financial Conduct Authority: Shore Capital Stockbrokers Limited ("SCS") an investment firm subject to the Prudential Sourcebook for Investment Firms ("IFPRU") and Shore Capital and Corporate Limited ("SCC") and exempt CAD firm. The prudential consolidation is currently undertaken at this parent entity. Accordingly, the Pillar 3 disclosures herein are made on consolidated basis at the Group's level and take into account the aforementioned FCA authorised and regulated entities.

This document has been completed in compliance with the Pillar 3 disclosure requirements as set out in Part 8 of the CRR. The disclosures made within this document are not subject to audit or external verification but have been reviewed and approved by the Group Board and senior management and the Group Board. Senior management considers that this diversified business model is sound and is capable of withstanding economic stresses and downturns.

1.3 Non-Material, Proprietary or Confidential Information

Article 432(1) of the CRR regards information as being material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

If the Group deems a certain disclosure to be immaterial to the economic assessment of the Shore Capital Markets Group, it may be omitted from this disclosure.

[1] DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

[2] REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Article 432(2) of the CRR provides for the omission of one or more items of the required disclosures if the information is proprietary or confidential. Information is regarded as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Group's investments therein less valuable.

The Group must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Group to confidentiality. In the event that any such information is omitted, the Group shall explain the grounds as to why it has not been disclosed.

1.4 Frequency and Means of disclosure

Pillar 3 disclosures are required to be made at least annually in conjunction with the date of publication of the Group's financial statements. These disclosures are made by reference to the Group's reporting year end being 31 December. The Group's Pillar 3 disclosures are published in the Regulatory Information section of the Group's website and these disclosures are made as at 31 December, 2019.

Risk management and Governance

Article 435 of the CRR requires the Group to articulate the risk management objectives and policies for each separate category of risk as set out herein including the strategies and processes for managing any such risks, the structure and organisation of Shore Capital Markets Group's Risk Management Function, the scope and nature of risk reporting and measurement systems and the policies in place in order to mitigate risks to which the Shore Capital Markets Group is exposed including the strategies and processes in place to monitor the efficacy of controls and mitigants.

2.1 The Group Board

The Group Board has overall responsibility for the Group's affairs and risk management, in particular commercial and strategic decision making, directing/controlling the activities of the Group and overseeing the Group's businesses and operations, including the implementation and review of business plans.

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 activities. 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.

The Group Board is specifically responsible for the Group's systems of internal controls, including financial, operational and compliance, which are designed to provide reasonable assurance against regulatory non-compliance, material misstatement or loss. The controls are used in identifying, evaluating and managing significant risks of the Group regularly.

2.2 Operating Boards

The Group board, through its delegation to the Operating Boards, ensures that the Group can operate as a going concern and that the day-to-day running of its operating businesses and the management thereof including meeting its regulatory and capital requirements are at all times met.

Subject to certain matters which cannot otherwise be delegated to the Operating Boards such as the statutory obligations which the Group Board assume including in respect of the Group's Financial statements and accounting policy, the Operating Boards have been generally authorised by the Group Board to make all decisions relating to the operational matters relevant to the respective businesses. Where the Operating Boards consider that a particular matter, risk or issue is not within its authority of delegation or of a significant business, financial, liquidity, risk or strategic nature the Operating Boards are required to escalate the matter to the Group Board or the Prudential Working Group (established for the purposes of meeting the Group's obligations pursuant to chapter 11 of IFPRU where it is in relation to an risk indicator to ensure its appropriate resolution.

The Operating Boards in exercising day to day operational management of the affairs of the relevant parts of the business, including in particular the management of risk, receive management information as follows: Daily statement of revenue, mark-to-market exposures, cash and excess regulatory capital in SCS, weekly statement of revenue, debtors, cash and excess regulatory capital across the Group, monthly management accounts for each operating business line, regulated entity and the Group. The Operating Boards have also appointed specific sub-committees of their respective Boards to consider the compliance risks arising from the relevant business' activities and to assess the effectiveness of the relevant systems and controls in this regard.

2.3 Operational Risk and Compliance Committees

The Operating Boards have appointed specific sub-committees to oversee the management of operations and operational risk. In particular there are three Operational Risk Committees; the Senior Risk and Compliance Committee ("SSRC"), the Risk and Operations Committee ("ROC") and the Market Making and Execution Committee ("MMERC").

Each Operational Risk Committee meets, on average, monthly. Among other things, these committees consider the operational stresses and risks relevant to the businesses. The committees will consider risk indicators and other indicators materialising ahead of risk indicators, which would indicate the need for an escalation of matters to the Prudential Working Group ("PWG"). The PWG is the body tasked with managing matters relating to the Group's Recovery Plan and includes directors of the Group's ultimate holding company, Shore Capital Group Limited.

2.4 Audit Committee

The Audit Committee of Shore Capital Group Limited is responsible for reviewing as to whether the accounting policies are appropriate for each entity and the Shore Capital Group as a whole and for monitoring internal financial compliance and external audit functions, Including the cost effectiveness, independence and objectivity of the auditor.

3. Own Funds and Capital Requirements

3.1 Own Funds

The below table summarises a full reconciliation of the Group's Common Equity Tier 1 and Tier 2 capital pursuant to article 437 of the CRR against the Group's Own Funds calculated as at 31 December 2019 with audited reserves as set out in the Group's Annual Report for the Year Ended 31 December, 2018, being the most recently audited financial statements. The Group calculates and reports its capital resources and capital resources requirements in accordance with the current FCA and EBA regulations.

	£000's
Capital resources per statement of financial position	
Consolidated net assets of the Group	33,321
Less non EU resources	-
Capital resources	33,321
Common Equity Tier 1 (CET 1) capital	
Share Capital and Retained Earnings	33,321
CET 1 capital before deductions	33,321
Deductions from CET1 capital	
Total deductions	-
CET 1 Capital	33,321
Common Equity Tier 2 (CET 2) capital	-
Total Own Funds	33,321
Own Funds requirement	
Market risk requirement	606
Credit risk capital component	1,243
Settlement risk component	466
Operational risk requirement	4,052
Total Pillar 1 capital requirement	6,367
Surplus capital	26,954
Capital ratio:	523%

3.2 Common Equity Tier 1 Capital

Common Equity Tier 1 capital is largely comprised of share capital and reserves. 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 reorganisation of the Group in March 2010, the amount of capital resources as presented in the table above for the year ended 31st December 2017 excludes the assets and liabilities that are held by the Group's non-EEA based companies.

3.3 Internal Capital Adequacy Assessment Process

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 process is intended to identify the amount of capital it requires in order to undertake its business activities and in particular whether the Pillar 1 requirements of market, credit and operational risk provide sufficient capital to support the risks associated as a consequence of those activities.

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 any resulting residual risk.

The main categories of risk which are considered in further detail below are the following:

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

3.4 Counterparty Credit Risk

Counterparty credit risk is the potential loss that the Group, or any of its subsidiaries where the loss is deemed to be material to the Group, would incur if a counterparty fails to settle under its contractual obligations or there is a default of an institution with which the Group, or any of its subsidiaries holds cash deposits.

The main credit risks in the Group relate to the potential failure by a counterparty or customer to settle a securities transaction executed with SCS, the non-payment of fees by a corporate client to SCC and cash balances held at banks.

SCS seeks to deal only with creditworthy counterparties, the majority of which are financial institutions. As a result, such counterparties are generally subject to certain minimum capital requirements and thereby limiting the counterparty credit risk to the Group. Furthermore, the counterparty credit risk associated with securities transactions is further limited by the fact that counterparty balances are generally settled on a delivery versus payment (DVP) basis. Unsettled trades are subject to a greater degree of risk which increases as the overdue period increases. Circumstances such as this are closely monitored with detailed management information provided to senior management including in relation to transactions awaiting settlement.

Outstanding fees due are monitored closely and strict payment terms are written into engagement letters entered into between SCS and SCC and the relevant corporate client. Transaction fees attributable to SCS and/or SCC are typically received upon completion of the transaction.

The Group's cash balances are held with a number of deposit-taking institutions for the purposes of diversifying the risk exposure in this regard.

The Group uses the standardised approach as set out in IFPRU 4 and Part 3, Title II, Chapter 2 of the CRR to calculate credit risk

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

Asset	Value	Charge	Risk weight	Requirement
Cash & cash equivalents	15,690	8%	20%	251
Prepayments & Other receivables	12,286	8%	100%	983
Non-current assets	113	8%	100%	9
Total				1,243

Other sources of counterparty risk include non-trading receivable components of the firm's balance sheet such as corporate finance receivables, loans, other non-trading receivables and prepayments and accrued income.

3.5 Credit risk adjustments

A financial asset is past due when the counterparty has failed to make a payment when contractually due.

A financial asset is impaired where there are 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.

Credit risk adjustments by the Group are only made cash balances held by the Group at major financial institutions.

3.6 Use of ECAIs

The Group makes use of External Credit Assessment Institutions ("ECAIs") for the purposes of assessing the creditworthiness of the banks at which it deposits its own cash resources. Where a credit assessment is available, the Group has nominated Standard & Poor's ("S&P") to rate the relevant exposures, under the standardised approach.

The Group's two main banks are currently rated BBB- and BBB+ by S&P for long term debt.

3.7 Exposure to market risk

The Group is exposed to equity risk through its subsidiary, SCS, holding securities arising from its market making, trading and customer flow activities which are held as Trading Book Positions. Market risk on such 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 in accordance with IFPRU 6 and CRD IV.

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 exposures are calculated using an asset class based risk weighting on the greater if the net long and net short of GBP equivalent value.

Market Risk	Risk Requirement (£000's)
Interest Rate PRR	1
Equity PRR	571
Foreign currency PRR	34
Total	606

3.8 Settlement risk

Settlement risk requirement for Pillar 1 is calculated in accordance with Article 445. Settlement risk is derived from exposures on unsettled delivery versus payment transactions in securities multiplied by a factor depending on how many days overdue payment or delivery is (8% 0-15 days, 50% 16-30 days, 100% 46+ days). The exposure on an unsettled trade is calculated as the difference between the agreed settlement price and the current market price of the underlying instrument due to be delivered where this difference could involve a loss for the firm.

3.9 Operational risk

Operational risk is risk of losses arising as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk can also be impacted by factors such as the loss of key staff, the quality of service afforded to clients, systemic failures or any event that disrupts the business from being able to carry out its activities such as those requiring an invocation of the Group's Business Continuity Plan.

The Group seeks to mitigate operational risk by maintaining appropriate systems and controls including where relevant policies and procedures. The Operational Risk Committees described in more detail at section 2.3 detail the governance framework that has been established to ensure any risks so arising of an operational nature are promptly identified, escalated and managed as appropriate.

Through delegating to the Operating Boards, the Group Board ensures that the sub-committees established for the purposes of managing Shore Capital Markets Group's risks are properly constituted with the appropriate mix of experienced and knowledgeable staff, with clear reporting lines and escalation expectations. 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 article 315 of the CRR.

3.10 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.

The Group has an effective contingency funding plan and meets the overall liquidity adequacy rule (OLAR) and is therefore in compliance with BIPRU 12.

3.11 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 one of its key risks. It has numerous controls in place in all areas of the Shore Capital Markets 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.

Exposure to interest rate risk has not been included in the Group's disclosures due to not being material to the Group.

The Group has no material exposure to non-trading book positions.

3.12 Securitisation

The Group has no exposure to securitisation activity.