King & Shaxson PhillipCapital 1866-2016: Celebrating 150 years

June 30

Pillar 3 disclosures

2017

Contents

1. Introduction

1.1 Background

The purpose of this document is to meet Pillar 3 requirements as set out by the European Banking Authority (EBA) on Part Eight of the Capital Requirements Regulation (CRR) (No 575/2013). Within the UK implementation of the CRR is managed by the Financial Conduct Authority ("FCA") and is implemented into UK law through the FCA Handbook, including through the adoption of the Prudential Sourcebook for Investment Firms (IFPRU).

The framework is based around three Pillars:

- Pillar I defines rules to calculate the minimum capital required by a firm to cover its credit, market and operational risks;

- Pillar II requires a firm to undertake an Internal Capital Adequacy Assessment Process ("ICAAP") in order to establish whether its Pillar I capital is adequate to cover all the risks faced by the firm, and to ensure it can meet its liabilities as they fall due. If the Pillar I capital is not sufficient to cover these risks, then the firm must calculate and hold the additional capital assessed.

- Pillar III requires a firm to disclose specific information on its risk management policies and procedures and the firm's regulatory capital resources and risk exposures.

Articles 431-455 of CRD IV set out the specific disclosure requirements in this respect.

1.2 Disclosure Policy

In accordance with Article 431(3) of CRD IV King & Shaxson has adopted a formal disclosure policy to comply with the disclosure requirements, and the group has a policy for assessing the appropriateness of those disclosures, including their verification and frequency.

These disclosures are published on the Group's website on at least an annual basis in accordance with article 433 of the Capital Requirements Regulation. The disclosures have been approved by the Board and are published on a consolidated basis for the year ended 30 June 2017.

1.3 Scope of application for Pillar III Disclosures

The 'Group' consists of two solo-regulated legal entities, King & Shaxson Limited ("KSL") and PhillipCapital UK Ltd ("PCUK"), both are full scope BIPRU €730k firms. There are two other dormant entities in the group.

KSL operates as
(i) An institutional agency securities broker; and
(ii) an official MTF, trading under the name of Dowgate.

The business covers primarily fixed interest products and their derivatives. The company trades only on a matched principle basis and does not take position risk intentionally.

PCUK's primary activities consist of retail FX broking and ethical private client asset management.

The accounting consolidation for the two regulated entities and the two further non trading entities is included in the accounts of PCUK, available from Companies House.

2. Risk Management Objectives and Policies

2.1 Risk framework and appetite

2.1.1 Firm's culture and conduct

The firm's culture cascades from its 'purpose' statement, which is set by the Board. The firm's purpose is 'to provide an important and useful economic activity in a socially responsible way, in line with our core values and providing reasonable and fair returns to all stakeholders; clients, staff and shareholders'.

The core values of the firm are embedded within the business and referred to on a day to day basis:

- Dictum Meum Pactum – *my word is my bond*
- Honesty, openness and integrity at all times
- Mutual respect and professionalism
- Positive can-do attitude with the absence of a blame culture
- Compliant and risk aware
- Does it pass the smell test?
- Challenge
- More human

The Board believes that the firm's culture and conduct contributes to the overall risk management framework hence culture and conduct is an ongoing consideration of risk assessments and actions.

2.1.2 Risk management framework

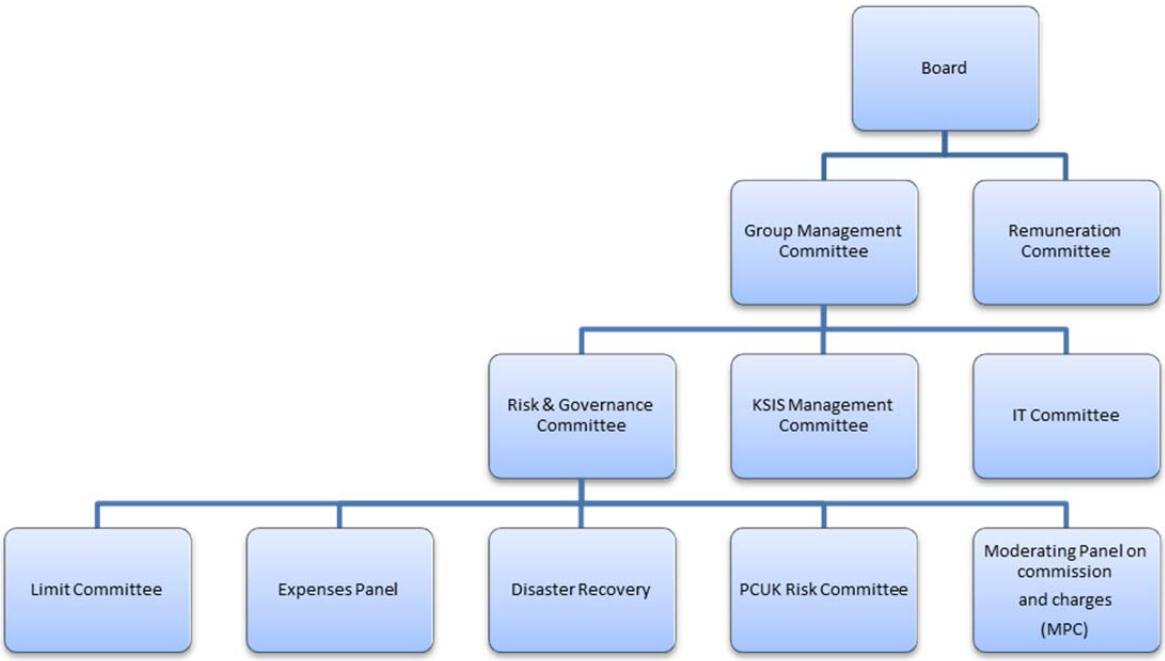
The Group follows a forward looking approach to risk management to ensure that all relevant classes of risk are taken into consideration both in the Group's day to day operations, and in its overall strategy and business plan.

The Group has a risk management framework and policy in place which all staff are aware of. The Board owns the framework and aims to promote a culture of risk awareness which aligns with its appetite, being cautious and quantified at a loss, across one year, of £50,000. Each business unit and department is aware of its risks and is encouraged to communicate any 'near misses' to the Risk Officer or any member of the Risk & Governance Committee. All such risks are taken very seriously and mitigating controls are put in place to reduce the probability of each risk materialising. The firm has a 'no blame' culture in place and recognises that we are human and things can go wrong.

The Risk Management framework includes processes that enable it to effectively identify, assess and manage risks throughout the business. Any new business area is formally assessed against a full suite of risks so that all potential risks can be considered before any new business line is implemented. These risks and any resulting actions are escalated to the Risk & Governance Committee, and all such actions are tracked to completion.

2.2 Corporate governance framework

The Group is of a size (approximately 70 persons) which enables the management team to be closely involved in the day to day running of the business. Below is the governance framework for the Board and executive committees which formalises responsibility, ensuring that strong risk management policies, processes and systems are in place at all times.



2.2.1 Group Management Committee

This Committee has delegated authority from the Board as a decision making body. It provides day to day management and oversight of the business, is responsible for strategy, reviews the Group's financial results and forecasts, considers new business initiatives, and reviews other high level matters that may affect the Group's performance or prospects. The members of the Management Committee are all members of the Risk & Governance Committee ("RGC").

2.2.2 Risk & Governance Committee

The members of this Committee are all members of the Group Management Committee plus one other senior manager. This Committee has delegated authority from the Board to be responsible for the overall framework of risk and governance, providing oversight of compliance, considering the risks associated with new business initiatives, and reviews other high level matters that may affect the Group's risk management.

The Committee is responsible for determining risk strategy, setting the Group's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Within that structure business managers are accountable for all the risks assumed within their areas of responsibility and for the execution of appropriate risk management discipline within the framework of policy and delegated authority set out by this Committee. The principle of individual accountability and responsibility within a disciplined approach to risk management is an important feature of the Group's culture. There are independent reporting lines for the key compliance and risk functions. Risk matters is a standing agenda item for the Committee and the Committee reviews top risks, near misses, decisions which could reach the risk appetite and progress on mitigating actions. Top risks and actions are documented in the firm's monthly management report.

2.2.3 Remuneration Committee

This Committee is responsible for recommending and agreeing remuneration changes, incentive amounts, policies and schemes that are fair, competitive and aligned with long term strategy, conduct criteria and with regulatory practice. The Committee includes the Finance Director, who is also Head of Risk, the Head of Compliance and the Chairman, who does not partake in any of the incentive schemes of the firm. Any proposals of the Committee are subject to ratification by the Shareholder.

2.2.4 KSIS Management Committee

This Committee provides day to day management and oversight of the agency business. It is responsible for proposing to the Board, the recruitment of new staff, actions in relation to performance management issues, oversight of compliance and operational matters pertaining to the business, review of the related financial results and forecasts, ensures that all business risks are properly identified, managed and monitored, considers new business initiatives, and reviews other high level matters that may affect the performance or prospects of the agency business.

2.2.5 IT Committee

With technology rapidly changing and the department in high demand across the business, this Committee is responsible for prioritising projects and considering the requirements of the IT departments. The Committee may also be required to assist with Risk & Governance matters.

2.2.6 Limit Committee

The Limit Committee is tasked with setting and monitoring the Group's exposure to credit risk arising from its agency business. It consists of five members of the Management Committee as well as several senior members of staff who meet monthly, or more often as required, to set the Group's attitude to credit risk, set limits from counterparty limits to limits on individual stocks, and review and consider industry matters that could affect counterparty risk.

2.2.7 Expenses Panel

This Committee is responsible for ensuring the Group is compliant with the Bribery Act 2010 and FCA Principles around inducements and bribery.

2.2.8 Disaster Recovery Committee

This Committee is responsible for ensuring the Group maintains a robust business continuity plan, well communicated and regularly tested. The Committee is also responsible for making decisions should an event occur that causes concern around the continuity of business.

2.2.9 PCUK Risk Committee

This Committee is responsible for setting and monitoring the Group's exposure to credit risk arising from the FX/CFD margined retail business. The Committee comprises certain members of the Management Committee as well as several senior managers and meets daily or as required to review client positions, client limits, currency exposures, margin alerts, margin levels, market volatility, amongst other things, with the aim of mitigating any risk of client over-loss, or company exposure, as far as reasonably practicable.

2.2.10 Moderating Panel on commission and charges

This Committee is responsible for framing the Group's policy on setting and monitoring commission charges, best execution, suitability and appropriateness.

2.2.11 Risk Function

The Risk Control Function monitors the Group's activities and ensures that the Group operates within the risk parameters set by the RGC. The Risk Control function is filled by a member of the Management Committee who reports top risks and escalates other risk matters to the Management Committee. The Risk Function ensures adherence to the Risk Management Framework policy by ensuring that all risks are documented, quantified and assigned an owner. The top risks are reviewed in detail on a quarterly basis by the RGC who aim to mitigate them as far as possible. 'Risk matters' is a standing monthly agenda item to look at any risk matters and issues, near misses, and progress on risk mitigating actions.

2.2.12 Compliance Function

The Compliance department monitors the Group's compliance with all regulatory requirements. The Compliance Officer is a member of the Management Committee and the RGC and reports on regulatory developments, compliance monitoring and all relevant aspects of Compliance.

3. Principal Business Risks

The risks outlined below are those that we believe are our key risks and could have a significant detrimental impact on our business model and outcomes. Each of these risks is discussed within the firm's ICAAP and is stress tested for capital and liquidity management..

3.1 Credit and Counterparty Risk

Credit risk is defined as the risk that a counterparty may fail to meet its financial obligations to the Group as they become due. As primarily a matched principal broker, this risk mainly derives from the discontinuity between the delivery of stock in against payment out and the delivery out of the stock on the other leg of the trade against payment in. The firm does not allow free delivery and would only do so in exceptional circumstances and after close consideration by the Management Committee.

For all clients, a counterparty credit limit has to have been agreed by the Limit Committee before any trading can take place and similarly, if any potential trade would cause a limit to be breached any increase in limit must be approved before the trade is agreed with the counterparty.

Limits are set by client/counterparty and this is then overlaid by a margin value applied according to the rating of the instrument in which the client/ counterparty is trading. The margin value ranges from 5% to 200%, and may also be country specific. The Group's credit officer may override agency ratings if he considers that other factors need to be taken into account, such as stock liquidity. All trades in sub-investment grade paper are given a 200% margin weighting.

With regards the FX retail broking business, credit risk exists should customers fail to pay monies due to the company. All trades executed by clients are automatically hedged with liquidity providers so that the company does not take a principal position. All deals are executed through an automated trading system with an automated close out where margin deposited falls to below 50%. In the unlikely event that prices move overnight by more than this parameter, the client may go into overloss resulting in a potential bad debt for the company. The company aims to ensure that margin levels and client limits are set at appropriate levels to mitigate the risk overloss. In addition, the PCUK Risk Committee monitors and stress tests exposures, with the clear objective of ensuring the risk of overloss is as low as reasonably practicable.

Other credit risk exposures faced by the firm include cash on deposit, margin placed with brokers, and outstanding invoices raise for adhoc transactions. These are all monitored on a daily basis with steps taken to ensure that risk is kept to a minimum. The vast majority of exposures are held with highly rated clearing banks and settlement organisations.

3.2 Market Risk

Market risk is defined as the vulnerability of the Group to movements in the value of financial instruments. The Group as a whole does not take trading risk and does not have a proprietary trading book, and so the Group would not be subject to market risk arising from positions held. However, it is recognised that the Group may be subject to market risk should a client default and the Group be left with a position is securities. Should this occur, the Group would look to flatten its position at the very soonest opportunity by buying or selling the securities in the market place. This price risk is taken into account within the credit assessment of trading with clients and counterparties by allocating a percentage margin against the instrument to be settled. This is a fairly simple methodology, but the percentage is set at a sufficiently high level such that the price risk is taken into account on a very conservative basis. For instance, in the gilt market a margin of 5% is used, a level of volatility which has only been experienced in the long end in periods of extreme market issues. Particularly in the short end the percentage would represent a significant price movement, to which the company would be exposed only if the counterparty was unable to fulfil its contract and we had to make good the other side of the contract in the market. In periods of market instability margin is increased.

Market risk can also arise on currency deposits held with banks and with our liquidity providers. These positions are monitored and hedging considered if it is felt exposure in excess of the Group's risk appetite.

3.3 Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This risk is the broadest exposure of the group.

Risks can entail:

- Key person risk
- Culture and conduct risk
- Legal and compliance risk
- Business process risk
- Strategic and business risk
- Financial management risk
- Communication failure
- IT systems failures
- Events preventing access to the business premises or the failure of the power supply or telecommunications systems causing disruption to normal business activities
- Errors in the dealing process – failure to follow procedures
- Fraud
- Human error

As explained within our governance structure, this risk is managed by the Risk & Governance Committee (RGC) through close management oversight, and consideration of a database of potential risks'. All near misses are subject to hot review by the RGC. The Group has a clear risk management policy, and a Risk

Manager who updates the RGC and similarly Management Committee on risk matters on a regular basis and reviews key risks on a quarterly basis.

3.4 Liquidity Risk

The Group's financial instruments comprise of cash, treasury bills, trade debtors and trade creditors. The Group manages its exposure to liquidity and cash flow risk through close management supervision of cash balances and short term investments, ensuring that the Group has sufficient cash resources at any time to meet immediate cash needs and that bank facilities are available should they be required. As part of normal operations, the Group faces liquidity risk through the risk of being required to fund transactions that fail to settle on the due date. This risk could materialise should a counterparty deliver securities to us, but where the purchasing counterparty fails to deliver the cash to us on a timely basis. The Group has addressed this funding risk by arranging overdraft facilities and a parental bank guarantee to cover such trades. The Group also has a repurchase agreement in place with institutions should it need to enter into a short term repurchase transaction using the underlying securities as collateral. The Group maintains a liquidity buffer in UK Treasury bills in accordance with its individual liquidity adequacy assessment.

3.5 Group Risk

Group risk is defined as the risk of any other group company causing a substantial failure in the ability of this Group to meet its regulatory and legal requirements. These risks are managed through effective corporate governance structures and ongoing dialogue.

3.6 Business Risk

Business risk is the possibility a company will have lower than anticipated profits or experience a loss rather than taking a profit. Business risk is influenced by numerous factors, including sales volume, margin, operating costs, competition, the overall economic climate and regulations. This risk is managed through close review of the Group's results, both for the year to date and forecast. Forecasts are presented by the Finance Director at least quarterly and if showing concern, management will discuss any mitigating actions that may need to be taken.

3.7 Interest Rate Risk

The Group is exposed to interest rate risk through its cash on deposit at bank. With interest rates so low, any impact from changes in rates is expected to be minimal. It manages this risk through ongoing monitoring of balances.

3.7 Pension Obligation Risk

The Group has no exposure to Pension Obligation Risk.

3.9.1 Securitisation risk

The Group has no exposure to Securitisation Risk.

3.10 Insurance Risk

The business has insurance policies for crime, professional indemnity, directors and officer's liability, business interruption and general asset cover. The lead underwriting name is assessed for good reputation and financial standing in advance of any policy being undertaken.

3.11 Regulatory Risk

The Group is exposed to the risk of new regulations imposing a fundamental change to the structure or activity of financial markets, and in particular the role of an agency, and inter dealer broker, and also impacts on the FX margin business. MIFID II is expected to have a large impact on the business structure and could impact the ongoing viability of the business. The Group's Compliance department monitors such changes in regulation and will involve external lawyers as required. The RGC is informed at each meeting of any regulatory matters that may affect the business. The Compliance and Risk area attend industry seminars on a regular basis to ensure that nothing is missed and that their understanding is sound.

4. Capital Resources

The capital resources of each company are determined on both a solo and consolidated basis. The capital resources for each company consist solely of Tier 1 capital. The financial year runs to 30 June. The figures below are audited figures.

4.1 Solo capital resources

Tier 1 Capital Resources- £'000	**PCUK**		**KSL**	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Ordinary share capital	9,710	9,710	1,150	1,150
Retained earnings	(4,303)	(3,599)	10,290	9,518
Total Shareholder's Funds	**5,407**	**6,111**	**11,440**	**10,668**
Deduction – investment in group company	**(2,607)**	**(2,607)**	**(300)**	**(300)**
Tier 1 Capital and Own Funds	**2,800**	**3,504**	**11,140**	**10,368**

4.2 Consolidated capital resources

There is no difference between the Group's shareholders' funds and regulatory capital of £14,769,000 at 30 June 2017. All regulatory capital qualifies as Common Equity Tier One.

Tier 1 Capital Resources- £'000	**Group**	
	30 June 2017	**30 June 2016**
Ordinary share capital	9,710	9,710
Retained earnings	5,059	5,041
Total Shareholder's Funds and Tier 1 Capital and Own Funds	**14,769**	**14,751**

5. Pillar I Capital Resource Requirement

a) Credit Risk and risk weighted assets

Exposure classes	**PCUK – 30 June 2017**		**KSL – 30 June 2017**	
£'000	**Capital requirement**	**Risk weighted assets**	**Capital requirement**	**Risk weighted assets**
Institutions	44	551	221	2,759
Other items	10	119	108	1,355
Total	**54**	**670**	**329**	**4,114**

Credit risk is calculated primarily on cash held at bank, due from group companies and on brokerage outstanding from the arrangement of swaps and other trades in the normal course of business. All of these amounts are expected to be recoverable. Other items are mainly fixed assets and prepayments. The Group uses the standardised approach to credit risk.

The Group mainly provides financial services to UK based clients. At the balance sheet date there were no exposures due from overseas entities. No items were past due date or considered to be impaired.

The gross credit risk exposure as at 30 June 2017 and the average exposure for the year were as follows:

Exposure classes -	PCUK – 30 June 2017			KSL – 30 June 2017		
£'000	Risk weighted assets	Gross exposure weighted assets	Average exposure Value for year	Risk weighted assets	Gross exposure weighted assets	Average exposure Value for year
Institutions	551	2,754	3,715	2,759	13,793	13,966
Other items	119	119	101	1,355	1,355	949
Total	**670**	**2,872**	**3,816**	**4,114**	**15,148**	**14,915**

b) Foreign Exchange Risk Capital Requirement

£'000	PCUK – 30 June 2017		KSL – 30 June 2017	
	Own funds capital requirement	Risk weighted assets	Own funds capital requirement	Risk weighted assets
FX exposure	41	517	69	865
Total FX risk capital requirement	**41**	**517**	**69**	**865**

c) Operational Risk Capital Requirement ("ORCR")

£'000	PCUK – 30 June 2017		KSL – 30 June 2017	
	Own funds capital requirement	Risk weighted assets	Own funds capital requirement	Risk weighted assets
OCOR	**71**	**890**	**2,411**	**30,137**

d) Pillar I capital adequacy as at 30 June 2017

£'000	Group	PCUK	KSL
Pillar I capital resources	**14,769**	**2,800**	**11,140**
Less: Pillar 1 capital requirement	**2,975**	**641**	**2,809**
Capital surplus	**11,794**	**2,159**	**8,331**

**The Pillar 1 capital requirement under CRD IV remains the higher of (i) the base requirement (€730k), and (II) the sum of the credit risk, market risk and operational risk capital requirement.*

6. Internal Capital Adequacy Assessment Process (ICAAP)

The Group is required to comply with the overall financial resources rule in order to ensure it has capital and liquidity resources, in sufficient amount and quality, to meet its liabilities as they fall due. The purpose of the ICAAP is to inform the Group's Board of Directors and senior management of the ingoing assessment of the Group's risks, how the Group intends to mitigate those risks and how much current and future capital is necessary to withstand severe yet plausible risk events. This includes an assessment of capital for the current year, an estimate of capital required over a 3-year period (under both 'normal' and 'stressed' conditions) and the calculation of wind down costs.

Each revision of the ICAAP is presented by the head of risk, and is discussed and approved at a meeting of the RGC. Where a new desk or business initiative is ventured, a detailed review of risk associated with that business venture is carried out. This includes reviewing any impact the new business would have on the firm's ICAAP. The ICAAP is formally reviewed and approved on an annual basis or more often as required.

7. Capital buffers

IFPRU 10 stated that a firm must calculate a capital conservation buffer of common equity tier 1 capital equal to 1.875% of its total risk exposure amount. A firm must also calculate a countercyclical capital buffer equal to its total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the firm's relevant credit exposures are located. At 30 June 2017, the Group had no exposures to countries which had set a countercyclical buffer rate above 0%.

As at 30 June 2017, the capital conservation buffers were calculated to be:

£'000	Group	PCUK	KSL
Capital conservation buffer	**698**	**39**	**659**
Countercyclical capital buffer	-	-	-
Capital buffers	**698**	**39**	**659**
Capital surplus after deduction for capital buffers	**11,096**	**2,120**	**7,672**

8. Remuneration Code Disclosures (Article 450 CRR)

The Remuneration Committee is responsible for all remuneration policies and framework, and for ensuring that the remuneration for Code Staff is fair and in accordance with the Remuneration Code. The policy is determined with due regard to the Code and to the shareholders.

As Tier 3 private limited companies, for the purposes of the FCA's general guidance on proportionality, the Group is not sufficient in terms of size to warrant an independent remuneration committee, and the Remuneration Committee is composed of 3 executive directors plus one independent Chairperson (whose remuneration does not comprise any variable components).

The Remuneration Committee has the ability to apply discretion to bonus payments for senior management and all staff. All bonuses are made on a discretionary basis and the Remuneration Committee always exercises that discretion. The Remuneration Committee makes proposals regarding remuneration to the Shareholder who is not an employee of the Group. All remuneration matters are submitted to the Shareholder for final review and approval. The Remuneration Committee meets at least twice per year.

The Group has not used external consultants to determine the remuneration policy, however the Remuneration Committee believes that the group's remuneration policies are consistent with and promote sound and effective risk management and do not encourage unnecessary risk taking.

The remuneration policy for the performance year 2016-17 was reviewed, discussed and approved by the Remuneration Committee and also the RGC. The remuneration policy statement sets out the parameters within which the Remuneration Committee takes its decisions and ensures that the remuneration decisions take into account the risk implications for the firm and its risk management.

The Group's remuneration practices, policies and procedures are designed to ensure that an employee's remuneration is consistent with and does not encourage excessive risk taking. Bonuses are wholly discretionary and are linked to an individual's contribution to the overall success of the Group. Being a small group (approximately 70 persons), management are close to its employees and are able to monitor performance personally. Each employee has a formal appraisal on at least an annual basis. Before any bonus is paid the remuneration committee will individually review the performance of each employee and agree on whether the employee had met appropriate performance criteria.

Bonuses are only paid out of realised profits and do not take account of any future revenue streams in the calculation. In this way, we ensure that pay is always linked to performance. There is a deferral element to the bonus pool for senior key staff, whereby an element of bonus is deferred over a two year period and is paid subject to performance conditions.

Aggregate quantitative information on remuneration by business area (BIPRU 11.5.18R (6))

For the financial year ended 30 June 2017, total remuneration broken down by business area is:

Broking: £5,634,000

Aggregate quantitative information on remuneration broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm (BIPRU 11.5.18R (7))

Seven Code Staff: £1,321,197

Amounts of remuneration paid for the financial year, split into fixed and variable remuneration and the number of beneficiaries (BIPRU 11.5.18R (8))

Fixed: £1,036,750 for seven code staff

Variable: £284,447 for seven code staff plus deferred bonuses of £19,473 payable in March 2018.

In accordance with Article 450 I(i), no individuals were paid over €1 million during the financial year. No severance payments were made during the financial year.