SHORE CAPITAL

EXCELLENCE INTEGRATED

Annual Report and Accounts 2017

Contents

Financial highlights

Revenue up by 6%

2016	2017
£39.4m	**£41.9m**

Adjusted profit before tax[1]

2016	2017
£5.1m	**£6.5m**

Adjusted earnings per share[1]

2016	2017
13.4p	**20.5p**

Total dividends per share for the year

2016	2017
5.0p	**10.0p**

Statutory profit before tax of £4.6m (2016: £2.4m)

Statutory earnings per share of 13.1p (2016: 6.0p)

[1] Excluding balance sheet impairments

www.shorecap.gg

Highlights
2017

Commenting on the results, Howard Shore, Chairman, said:

"The Group has enjoyed a year of growing revenues and profitability. Our Capital Markets business has been busy, participating in a high volume of transactions during the year and growing its franchise. Meanwhile, our Asset Management division performed very strongly, with significant uplifts in revenues and profitability.

There are excellent opportunities to grow our Asset Management platforms and in Capital Markets, our approach to MiFID II has ensured a wide distribution of our output to the investment community, with strong support from institutional clients signing-up to take our research. Consequently, we remain optimistic about our future prospects."

Operational highlights

- Capital Markets enjoyed a successful year, building its retained client base and participating in a high volume of transactions
- Capital Markets advised on three IPOs, 24 secondary fundraisings, four takeovers and added 13 new clients, including Oxford BioDynamics plc; Non-Standard Finance plc; and Mothercare plc
- Asset Management made excellent progress, growing revenues, profits and assets under management:
  - Puma Investments grew its investment offering, launched Puma VCT 13 and its Puma Alpha EIS Service, and was named Tax-Efficient Group of the Year at 2017's Investment Week Tax Efficiency Awards
  - Institutional funds advised by the Group deployed further capital with investments

Our Services

Capital Markets

Full service investment banking offering

Corporate Finance/Broking, Research-Led Broking and Market Making

Corporate Broking & Advisory
- Over 70 retained corporate clients
- Over £3bn raised in capital markets since January 2015

Market Making
- 3rd largest market maker on the London Stock Exchange by number of stocks covered

Research-Led Broking
- Research on over 200 companies distributed to our extensive institutional client base

Asset Management

Specialist fund management for private and institutional investors

- £865m funds under management at December 2017

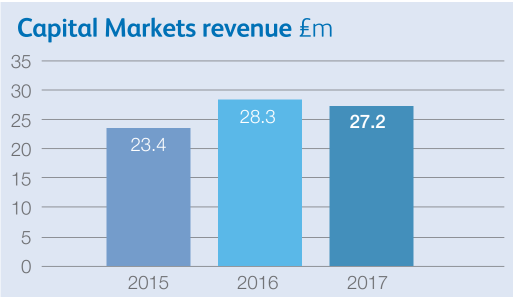
Private Client Investments
- Suite of tax-efficient investment offerings under the Puma Investments brand
- Experienced teams providing investment opportunities across three core platforms:
  - Growth capital and private equity
  - Property finance and construction
  - Listed equities

Institutional Investments
- Advisor to two substantial German property portfolios
- Investor in co-working business Mixer Global

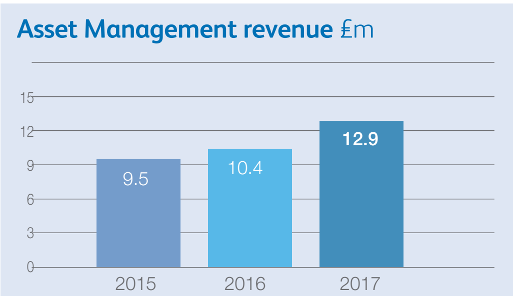
Principal Finance

Strong balance sheet ready to invest and seed new funds and attractive opportunities

Principal Finance
- Independent and joint venture investment activities using the Group's strong balance sheet
- Seed funding of German and UK property funds
- Investment in radio spectrum licences in Germany
- Strong liquidity allowing for further investment in businesses with swift movement on opportunistic prospects



Read more about
Capital Markets
on **page 8**



Read more
about Asset
Management
on **page 10**

Read more about
Principal Finance
on **page 13**

Chairman's Statement
Introduction

The Group has enjoyed a year of growing revenues and profitability. Our Capital Markets business has been busy, participating in a high volume of transactions during the year and growing its franchise. Meanwhile, our Asset Management division performed very strongly, with significant uplifts in revenues and profitability.

Howard P. Shore
Executive Chairman

The Group has enjoyed a year of growing revenues and profitability. Our Capital Markets division has been busy, participating in a high volume of transactions during the year and growing its franchise. Meanwhile our Asset Management division performed very strongly, with significant uplifts in revenues and profitability. We remain optimistic about the opportunities ahead for our Capital Markets and Asset Management operations and the business generally.

During the year, Capital Markets continued to focus on delivering the best service and outcomes for its institutional and corporate clients, growing its retained client base and working on a diverse range of transactions. Revenues in the division of £27.2 million were 4% lower year-on-year, reflecting a different business mix and the fact that more corporate transaction appointments were on a joint rather than a sole basis. The cost base was impacted by the preparations for MiFID II which came into force at the beginning of 2018, consequently profit before tax was £5.2 million at a margin of 19.1% compared to a prior year of £6.8 million at a margin of 24.0%.

The team added 13 new retained corporate clients, including Oxford BioDynamics plc; Non-Standard Finance plc; and Mothercare plc. It worked on three IPOs, 24 secondary fundraisings and four takeovers including the IPO of Global Ports Holding plc; and transactions for Playtech plc and Victoria Oil & Gas plc. On the advisory side its mandates included MarketTech plc's takeover by LabTech Investments; and the acquisition of Styles & Wood plc by Central Square Holdings.

The business extended its distribution capabilities during the year, whilst continuing to invest in its research and idea generation capabilities for clients. Our approach to MiFID II ensures a wide distribution of our output to the investment community, and we have had strong support from institutional clients signing-up to take our

Adjusted earnings per share

20.5p

2016: 13.4p
(excluding balance sheet impairments)

research and execution services. Market Making also performed well, growing revenues and profitability, and maintaining our reputation as a strong and trusted counterparty ensuring market liquidity.

The Asset Management division made excellent progress during the year, growing revenues, profits and assets under management, which rose by 5% to £865 million. Our previous investments in building the team helped enable the division to increase profits by 50% to £3.0 million on revenues of £12.9 million, an increase of 24% which grew net margins to 23%.

The Group's Private Client Investments business, Puma Investments, enjoyed a strong year which combined impressive financial results with significant operational and strategic advances. The business made material investments in headcount and infrastructure across all three of its focus areas – growth capital and private equity investments; property finance; and listed equities – and we are excited about the future opportunities for these three platforms.

The business launched its latest VCT fund, Puma VCT 13, whilst funds in the Puma EIS Service and the recently launched Puma Alpha EIS grew 30% to c.£65 million. Puma Heritage continued to grow and has now increased its NAV to over £50 million. The Puma AIM Inheritance Tax Service again delivered impressive results, with compound annual growth of 15.5% since inception, and has continued to grow inflows after inclusion on a number of fund wrap platforms.

The expertise and experience of the team at Puma Investments again led to external recognition. The company won Tax-Efficient Group of the Year at 2017's Investment Week Tax Efficiency Awards and Best AIM Investment Manager at 2017's Growth Investor Awards for the second year running.

In Institutional asset management, funds advised by the Group have made significant progress during the year. Brandenburg Realty invested alongside Puma Brandenburg in Mixer Global, an exciting operator of premium co-working spaces and business lounges founded in Tel Aviv, which will enable the business to establish European headquarters and open new sites in the EU and US. Brandenburg Realty also purchased five properties in highly-prized Berlin neighbourhoods where the team will implement a range of value enhancing asset management programmes.

Puma Brandenburg completed a buyback during the year, representing an equivalent cash distribution of £5.15 per share in Shore Capital for Shore shareholders who held their shares since the time of the demerger of Puma Brandenburg and Shore Capital in 2010. Additionally, value-enhancing development work commenced at Cologne's Hyatt Regency and the team continues to co-operate closely with Lidl, focusing on maximising the value of stores held in the portfolio.

In Principal Finance, we incurred a net pre-tax reduction of £1.1 million in the carrying value of various assets, including investments in unquoted stocks and associates. Elsewhere in the division, DBD continues to hold its remaining 32 regional radio spectrum licences which cover many of Germany's largest metropolitan centres and continues to test the technology as part of its business plan for the future use of the licences.

Financial Review

The Group has recorded revenues up 6% with adjusted earnings per share of 20.5p.

Income and expenditure

Revenue for the year increased by 6.3% to £41.9 million, (2016: £39.4 million) whilst administrative expenses increased by 5.0% to £35.9 million, (2016: £34.2 million). Group profit before tax increased by 91.7% to £4.6 million (2016: £2.4 million).

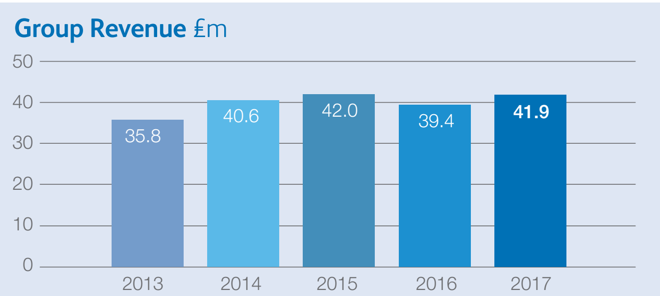
Revenue from Capital Markets decreased by 3.9% to £27.2 million, (2016: £28.3 million) and divisional profit before tax declined 23.5% to £5.2 million, (2016: £6.8 million), with a net margin of 19.1%, (2016: 24.0%).

Revenue from Asset Management grew by 24.0% to £12.9 million, (2016: £10.4 million) and divisional profit before tax increased 50.0% to £3.0 million, (2016: £2.0 million) representing an improved net margin of 23.3%, (2016: 19.0%).

The Principal Finance division recorded a pre-tax loss of £2.0 million (2016: £4.2 million loss).

Basic Earnings per Share

The Group generated earnings per share of 13.1p, (2016: 6.0p).



Liquidity at 31 December 2017

£38.5m

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 £38.5 million, (2016: £32.7 million) comprising cash of £35.7 million, (2016: £23.9 million) and £2.8 million of gilts and bonds, (2016: £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 £67.2 million (2016: £67.1 million) reflecting the profit in the year, offset by dividends paid and the net repurchase/cancellation of shares during the year.

In addition to the £35.7 million of cash and £2.8 million of gilts and bonds referred to above, £3.9 million was held in funds advised by the Group; £4.7 million net in quoted equities and a further £2.2 million in other unquoted holdings. The licences held as part of the Group's Spectrum Investments were carried at £2.2 million on a gross basis, before allowing for minority interests.

The remainder of the balance sheet was £15.7 million net, which included £18.5 million of net market and other debtors in the Company's stockbroking subsidiary.

During the year, the Group recorded a net £1.1 million pre-tax reduction in the carrying value of various assets, including investments in unquoted stocks and associates, (2016: £2.7 million) in the Principal Finance division.

Net Asset Value per Share
Net asset value per share at the year end was 270.0p (2016: 269.6p).

Dividend
The Board proposes a final dividend of 5.0p, (2016: 5.0p per share), making a total for the year of 10.0p per share (2016: 5.0p per share). The dividend will be paid on Wednesday 25 April 2018 to shareholders on the register as at Friday 6 April 2018.

Total dividends per share for the year

10p

Strong Balance Sheet at 31 December 2017

	£m
Cash	35.7
Listed equities, bonds and gilts	7.5
Investments/loans in various Puma funds	3.9
Unquoted investments	2.2
Intangible asset (spectrum licence)	2.2
Net debtors from share trading	18.5
Other (accruals, prepayments)	(2.8)
TOTAL	67.2
Less: minority interests	(8.9)
NET EQUITY attributable to shareholders	58.3
NAV PER SHARE	270.0p

Operating Review

Capital Markets

Overview

Despite political uncertainty in the UK and the costs of implementing regulatory change, the Capital Markets division enjoyed a successful 2017, growing its client base and developing its service offering. Revenues in the division were slightly lower year-on-year, reflecting a different business mix and the fact that more corporate transaction appointments were on a joint rather than a sole basis. The cost base was impacted by the preparations for MiFID II which came into force at the beginning of 2018. The uncertainty referred to above continues to impact UK institutional investor attitudes towards domestically focused transactions, with such institutions behaving selectively as a result. Nevertheless, we are comfortable that the business is well positioned to take advantage of future market opportunities as they arise.

The Corporate team participated in a significant number of high profile transactions, as well as adding 13 new retained corporate clients.

The Group continued to develop its distribution reach during the year and refined its research product through ongoing investment, ensuring relevance and the ability to add value to clients. Throughout our planning for entry into force of the MiFID II regulations, we continued to focus on delivering the best service and outcomes for our institutional and corporate clients, helping them to work within the new regime. Our preparations positioned us well in the market and we have had strong support from institutional clients signing-up to take our research and execution services.

Our Market Making business performed well, growing revenues and profitability, and maintaining its reputation as a strong and trusted counterparty ensuring market liquidity.

The business continues to invest in high calibre individuals and teams where the Company identifies opportunities for incremental growth, new skills and high quality relationships.

EXTEL
IDENTIFYING EXCELLENCE
SHORE CAPITAL
EXCELLENCE INTEGRATED
No.1
Insurance
2017

THOMSON REUTERS
ANALYST AWARDS
2017 WINNER
SHORE CAPITAL
EXCELLENCE INTEGRATED
No.1
Food & Staples Retail
2017

Corporate Broking and Advisory

During 2017, we have continued to be very active and participated in three IPOs, 24 secondary fundraisings and four takeovers. The team also undertook a number of private placements for unlisted companies. Significant transactions during the year included acting as:

- Joint bookrunner on the £337 million placing of ordinary shares in Playtech plc;
- Joint bookrunner on the £126.5 million placing by NextEnergy Solar Fund Limited;
- Lead manager on the Main Market IPO of Global Ports Holding plc, raising US$230 million;
- Sponsor, global co-ordinator and joint bookrunner on the Main Market IPO of UP Global Sourcing Holdings plc, raising £52.6 million;
- Lead manager on the US$125.0 million placing of ordinary shares in Savannah Petroleum PLC;
- Joint bookrunner on the £49.3 million placing of ordinary shares in Randall & Quilter Investment Holdings Ltd;
- Joint bookrunner on the €46.9 million placing of ordinary shares in Applegreen plc;
- Joint bookrunner on the US$23.5 million placing of ordinary shares in Victoria Oil & Gas plc; and
- Joint bookrunner on the €15.0 million placing of ordinary shares in Amryt Pharma plc.

Our advisory work included acting as:

- Corporate Broker to MarketTech Holdings Limited in relation to its £892.3 million takeover by LabTech Investments Limited;
- Financial adviser to Staunton Holdings Limited in relation to its £37.3 million offer for FIH Group plc; and
- Financial and Rule 3 adviser to Styles & Wood Group Plc in relation to its £42.5 million takeover by Central Square Holdings Limited.

New retainers in the year, included Oxford BioDynamics plc, Non-Standard Finance plc, Mothercare plc, Gfinity plc and Salt Lake Potash plc.

Research, Idea Generation and Distribution
The political and regulatory uncertainties in the UK during the year have presented investment challenges for institutions and businesses alike. Whilst international earners – particularly in the FTSE 100 – retained their attractions for investors, domestically focused fund managers investing in UK small and mid-cap equities adopted a more selective approach. Despite this caution, we retain confidence in the capability and adaptability of British businesses to face the challenges ahead and of London as an attractive market for high quality companies with strong fundamentals to list, raise capital and thrive.

Ahead of the entry-into-force of the MiFID II regulations, the Company ensured that it was prepared for the new regulations and maintained its service-orientated focus on achieving beneficial outcomes for clients. Preparations for the new regulatory environment were implemented by a cross-Group team and we continue to believe that MiFID II provides Shore Capital with an opportunity to compete effectively and gain market share.

During the year we expanded our distribution capabilities where we believe we can play a constructive role in introducing high quality British companies to institutional investors. Our research capabilities also play an important role in our continuing primary and secondary activity; and our approach to MiFID II ensures a wide distribution of our output to the investment community, something that has been welcomed by our growing list of corporate clients.

Shore Capital's considerable focus and capabilities in FTSE 100 and FTSE 250 equities enabled it to maintain strong support for its research and idea generation services from the asset management communities. Consequently, we continue to perform well in asset managers' internal and external broker reviews, the Extel rankings and Starmine awards.

Despite the challenges presented during the year, we remained committed to developing our franchise and expanded our idea generation and equity research capability, including the appointment of Matthew Elliott as a senior political adviser; and building on our strong capabilities in the general retail and technology sectors with the addition of experienced analysts.

A leading capability amongst London brokers
- Leading edge trading platform connecting to multiple MTFs, dark pools and crossing networks
- London Stock Exchange statistics show us as one of the top three ranked market makers on the LSE by stocks covered
- Large highly regarded team processing several thousand trades a day
- Retained clients are supported by an experienced dedicated corporate market making team
- Established electronic distribution network providing service to c.150 brokers, leading UK institutions and hedge funds
- Direct electronic links to all leading retail brokers including:

BARCLAYS TD WATERHOUSE HARGREAVES LANSDOWN HALIFAX

- Direct electronic links to major institutions

Market Making
Our Market Making business performed well, growing revenues and profitability, and maintaining its reputation as a strong and trusted counterparty ensuring market liquidity.
Although clearly sensitive to the overall market environment, Shore Capital remains focused and adaptable to changing trading conditions and client needs. Market Making operations continue to benefit from the team's wide stock coverage and its reputation as a strong and trusted counterparty. The team comprises highly experienced traders who are able to identify revenue opportunities whilst operating within a risk framework that ensures loss days are a rare occurrence.

Fixed Income
Fixed income trading faced a tough external environment during the year, with credit spreads continuing to trade at record low levels and activity being further hampered by market participants contemplating the implications of MiFID II. Notwithstanding this, the team performed credibly, recording a solidly profitable return albeit on lower year-on-year revenues. Since the year end, global government bond yields have started to rise and are now higher than at the start of 2017, which should in future lead to increased investor interest in the fixed income markets.

Asset Management

Overview

The Asset Management division continues to make significant progress, growing revenues, profits and assets under management. Overall AUM for the Asset Management division at the year end grew to £865 million, (2016: £825 million) driven by Private Client operations. On the institutional side of the business, funds advised by the Group achieved material strategic successes in their real estate portfolios.

During the year Puma Investments was named Tax-Efficient Group of the Year at 2017's Investment Week Tax Efficiency Awards and, for the second year running, won Best AIM Investment Manager at 2017's Growth Investor Awards.

In the Institutional business, Brandenburg Realty gained momentum, investing in a range of high quality real estate opportunities in addition to implementing its asset management programme to enhance value creation across the portfolio. The Group also helped Puma Brandenburg to obtain planning consent and commence construction of two new value-enhancing restaurants at Cologne's Hyatt Regency, in addition to implementing plans to maximise value across its Lidl store portfolio. Towards the end of the year, the team assisted with Brandenburg Realty's investment alongside Puma Brandenburg in Mixer Global, an operator of premium co-working spaces and business lounges founded in Tel Aviv. The investment will enable Mixer to establish European headquarters and open new sites in the EU and US.

Private Client Investments

Overview

The Group's Private Client Investments business, Puma Investments, enjoyed a strong year which combined impressive financial results with significant operational and strategic advances. The business made material investments in headcount and infrastructure across all three of its focus areas – growth capital and private equity investments; property finance; and listed equities – and we are excited about the future opportunities for these three platforms.

The expertise and experience of the team at Puma Investments again led to external recognition. The company won Tax-Efficient Group of the Year at 2017's Investment Week Tax Efficiency Awards and Best AIM Investment Manager at 2017's Growth Investor Awards for the second year running.

Growth Capital and Private Equity

Puma Investments offers retail investors access to tax efficient private equity offerings through our long-standing Venture Capital Trusts ("VCTs") and Enterprise Investment Scheme ("EIS") services. We look to invest in tranches, initially deploying up to £5 million into UK growth businesses with high quality, credible management teams and the potential and aspiration to grow. Our highly experienced investment team includes specialists in a wide range of sectors including health and social care; leisure and hospitality; childcare; and retail.

Since 2005, the Group has raised over £220 million for its Puma VCTs and over £110 million has been distributed to investors. The most recently closed fund, Puma VCT 12, raised £30.9 million, accounting for more than half of the total funds raised in the limited-life VCT market in the 2015/16 tax year.

The business is making good progress in deploying available funds raised for its active VCTs, which have recently paid out annual tax-free dividends of between 3.0p and 6.0p to shareholders. The Group is pleased to have launched its latest VCT for the current tax year, Puma VCT 13, which will build on the track record of previous funds.

The Puma EIS portfolio service, (the "EIS Service") was launched in November 2013 to offer investors the opportunity to invest in EIS qualifying companies utilising the team's strong track record and expertise gained from their experience running the Puma VCTs. In October 2017, the EIS Service closed for new subscriptions and the Group launched its new Puma Alpha EIS Service ("Alpha EIS"). Fundraising continued successfully throughout the period, increasing funds in both services to c.£65 million. To date, the EIS Service has invested in eight portfolio companies across a range of sectors; and Alpha EIS made its first investment towards the end of the year.

Assets under management

£865m

Property Finance and Construction

Puma's Property Finance and Construction team offers investors access to secured, first charge loans, at prudent loan-to-value ratios on UK real estate across a range of sectors. The platform provides lending solutions to borrowers throughout the lifecycle of property development, via three principal offerings – pre-development bridge loans; development finance; and development exit loans. Ticket sizes typically range from £5 million to £20 million and the team are active across residential, commercial and more specialist areas of real estate, including hotels and healthcare assets.

Private Client investors can access these activities through an investment into Puma Heritage plc, which utilises its diversified loan book, (over 400 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.

Puma Heritage celebrated its fourth anniversary during 2017, having recorded a significant acceleration in its net asset value, ("NAV") during the period. Subscriptions from new shareholders and organic profits increased the company's NAV to over £50 million at the time of writing. Puma Heritage remains open for investment and has a strong pipeline of loan opportunities to drive future growth.

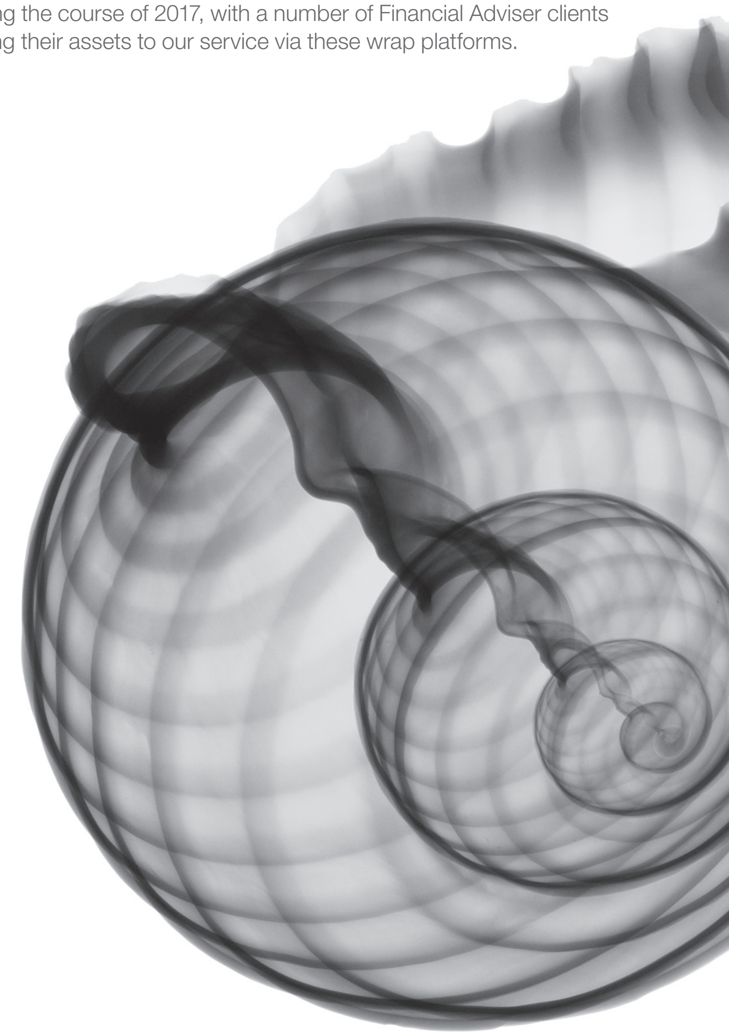
The business continues to invest heavily into the Property Finance and Construction team. Given the platform's strong track record, significant market demand and the retrenchment of traditional lenders in development finance, we are seeking further sources of capital to deploy in the real estate lending arena and to scale this core part of our business further.

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.

Led by award-winning manager, Justin Waine, the AIM Service celebrated its third anniversary during the year; and by the year-end had delivered a 15.5% compound annual growth rate since inception, well in excess of the FTSE AIM All Share Index and the FTSE All Share Index. Puma gained further external recognition for the AIM Service winning Best AIM Investment Manager at the 2017 Growth Investor Awards for the second year in a row.

The AIM Service is available to clients with a Financial Adviser directly through Puma Investments or through selected Financial Adviser Platforms, including the Ascentric, Standard Life and Transact platforms. Assets under management more than trebled during the course of 2017, with a number of Financial Adviser clients linking their assets to our service via these wrap platforms.



PUMA INVESTMENTS
Calculated Excellence

INVESTMENT WEEK
TAX EFFICIENCY AWARDS 2017/18
WINNER
Tax-Efficient Group of the Year

GROWTH INVESTOR 2017 AWARDS
WINNER
BEST AIM INVESTMENT MANAGER

Operating Review
continued

Institutional Asset Management

Brandenburg Realty

Brandenburg Realty (the "Fund") gained momentum during the year, investing in a range of high quality real estate opportunities in addition to implementing its asset management programme to enhance value creation across the portfolio.

The asset advisory team sourced and recommended the acquisition of five high quality residential buildings with a total floor space of 8,500 sq.m. The buildings are located in the highly sought-after Berlin neighbourhoods of Mitte, Prenzlauer Berg and Pankow. Where applicable, the newly acquired buildings are being prepared for condominium sale. Planning permission is in place to construct new rooftop units at one of the buildings and the team is progressing this along with planning other value-enhancing renovations at each building. Debt financing options for the five newly acquired assets are also being evaluated.

Towards the end of the year, the team assisted with the Fund's investment alongside Puma Brandenburg in Mixer Global, an operator of premium co-working spaces and business lounges founded in Tel Aviv. The investment in Mixer will enable it to establish European headquarters and open new sites in the EU and US.

The team assisted the Fund's implementation of its strategy for the commercial and residential portfolio in Potsdam and the Monumentenstrasse residential building in Berlin. A full planning application to construct c.1,800 sq.m. of new residential space has been submitted in Potsdam and the process to obtain condominium title for the existing residential units is underway. At Monumentenstrasse, units continue to be sold at significantly higher prices than the underwriting expectations at the time of acquisition. This reflects not just the strength of Berlin's residential property market, but also the successful efforts of the asset advisory team.

The asset advisory team continues to seek and recommend additional acquisition opportunities to the Fund.

Puma Brandenburg Limited ("PBL")

During the year, PBL completed a tender offer to acquire the remaining interests of the minority shareholders at €6.00 per unit comprising a combined A and B Share. The take-up and support for the offer was extremely strong. PBL acquired 26.7% of the company, resulting in Howard and Andrée Shore increasing their shareholding to 90% of the company. This represented an equivalent cash distribution of £5.15 per share in Shore Capital for Shore shareholders who held their shares since the time of the demerger of PBL and Shore Capital in 2010.

The Group has continued to help PBL achieve significant success across its portfolio, including:

- Obtaining planning permission at Cologne's Hyatt Regency for the construction of two new restaurants, (total internal space of 500 sq.m.) on the river bank in front of the hotel. Following the detailed planning for the construction of these value enhancing restaurants, building works commenced in December 2017 and are expected to be completed in the late summer of 2018;
- Ongoing close co-operation with Lidl to maximise value in the portfolio of stores located across Germany. The latest mutually beneficial agreement was signed in August 2017 and provides for lease extensions, (ranging from five to 12 years) at 10 stores. In total, over the last 12 months the lease term has been extended at 14 stores; and
- PBL's participation in the Mixer Global investment, as noted above.

St Peter Port Capital ("SPPC")

SPPC announced its interim results for the six months ended 30 September 2017 on 9 November 2017. As at that date, it had investments in seven companies, (excluding those companies in the portfolio it had written down to zero).

The directors of SPPC reported that they had implemented a cost reduction programme expected to save approximately £200,000 per annum. They also reported that although some initial discussions had taken place with potential buyers of the company, (or some of its assets) none of these discussions had led to viable offers being received. As a result, the Strategic Review initiated in October 2016 was terminated on 9 November 2017.

As before, substantially all the value in the portfolio is made up of four illiquid investments, two of which require significant capital injections to progress to the next stage of their respective evolution. A more benign regulatory environment for mining projects in the US has improved the prospects of one of the company's investments, (previously written down) but significant legal barriers remain. The directors continue to seek realisations for the portfolio.

MIXER
WORK & LOUNGE

Brandenburg Realty invested in Mixer Global, an operator of premium co-working spaces and business lounges.

Principal Finance

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

Puma Social Care Investments ("PSCI")

During the year the Group launched PSCI, a joint venture focused on real estate opportunities in the supported living sector, with equity commitments totalling £21 million, contributed equally from the Group alongside two family offices in the United States. The Asset Management division advised on PSCI's full deployment into a portfolio of properties and, towards the end of the year, helped realise value created in the joint venture by sourcing and executing a sale of the portfolio, achieving an IRR of over 27% for investors. The Group continues to work in the sector in connection with the acquisition of further assets which if successful will continue to generate revenue for the Group.

Spectrum Investments

The division holds the Group's investment in DBD which, through a subsidiary, holds 32 regional radio spectrum licences in Germany of indefinite duration, (the "Licences"). Shore Capital holds a 59.94% interest in Spectrum Investments Limited, the parent company of DBD.

DBD has been given consent by the German Telecoms Regulator ("BNetzA") to test the LTE TDD technology which will support its business plan for the future use of the Licences, premised upon a small radio cells network concept. Initial pilot schemes have commenced in Berlin, Karlsruhe, Dusseldorf, Hannover, Dresden and Leipzig and DBD plans to roll out additional pilots in other areas covered by the Licences.

For the initial trials, at the request of BNetzA, DBD is using temporary test licences granted to it by BNetzA. However, DBD believes that, as a result of Article 9a of the EU Framework Directive (2002/21/EC, as amended) implemented in Germany by Sec. 150 para 8 of the German Telecommunications Act, it should be permitted to use its existing Licences to conduct the pilot schemes and to support the roll out of its services in the future. Agreement on this point has not yet been reached with BNetzA and correspondence between DBD and BNetzA is ongoing.

In correspondence with DBD, BNetzA has noted that its ongoing consideration of the status and use of the Licences should be taken in the context of its ongoing review of spectrum frequency planning for the years after 2021/2022 and in particular its frequency concept for the 3.5GHz band, into which the Licences fall.

During the year, the division incurred a net pre-tax reduction of £1.1 million in the carrying value of various assets, including investments in unquoted stocks and associates, which included a permanent impairment in relation to certain assets due to a declining assessment of recoverable value. As these impairments are considered one-offs, they have been added back in arriving at adjusted profits and earnings.

Current Trading and Prospects

There are excellent opportunities to grow our Asset Management platforms and in Capital Markets, our approach to MiFID II has ensured a wide distribution of our output to the investment community, with strong support from institutional clients signing-up to take our research. Consequently, we remain optimistic about our future prospects.

Howard Shore
Chairman
26 March 2018

Board of Directors and Senior Management

Board of Directors

Howard Shore
Executive 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.

Dr 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.

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 many years. In 2011 he was No. 3 in the 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 is widely referenced in financial and industry journals. He holds a Ph.D from The Queen's University of Belfast on the Northern Ireland food industry 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 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.

Heydan von Frankenberg
Shore Capital Germany – Managing Director

Heydan von Frankenberg graduated with a degree in business administration, and began his career with Ernst & Young in Frankfurt in 2002, and has since worked in Berlin and Abu Dhabi. He qualified as a chartered surveyor (MRICS) in 2008. Working in the real estate department, he has advised banks, institutional investors and private equity firms on all real estate related matters. Heydan joined Shore Capital in 2017, and is the Managing Director of Shore Capital's German team in Berlin and also responsible for asset management.

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 the quoted mid and small-cap segment of the market from both a financial advisory and corporate broking perspective. Dru has successfully led numerous transactions including 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 joined the Shore Capital Group in 2004 and was promoted to Head of Sales in 2010, and then Head of Corporate Broking in 2018. He started his career in his native Dublin with Goodbody Stockbrokers before moving to Asset Manager, Tilney Investment Management. He is directly involved in our fundraising activities, primarily focusing on new business and origination.

Corporate Governance

General

Shore Capital Group Limited (the "Company") and its subsidiaries (together being the "Group") has sought to comply with a number of provisions contained in the UK Corporate Governance Code, issued by the Financial Reporting Council (the "Code") in relation to matters for which the Board is accountable to shareholders, so far as is considered appropriate for a company of its size and nature. Further explanation of how the principles and supporting principles have been applied is set out below.

Board of Directors

The Board currently comprises four executive and two non-executive directors. It carries ultimate responsibility for the conduct of the business of the Group. The Board maintains full control and direction over appropriate strategic and financial issues through regular meetings and reports to ensure that the Board is supplied with all the information it needs. The 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 Company, each have significant other business interests and activities. The Board as a whole considers their shareholdings in the Company to be an advantage for the shareholders as in addition to their fiduciary duties, their interests are aligned with shareholders generally. The terms and conditions of appointment of the non-executive directors are available for inspection by any person at the Company's registered office and also at the Company's AGM.

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 Board to provide effective leadership and maintain a high standard of integrity across the Group.

The Board has two committees, the Audit Committee and the Remuneration Committee (see below). The 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 Board as a whole, whilst the non-executive directors are accessible to shareholders in the event of issues arising.

The 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 Executive Chairman against previously agreed objectives and the Executive Chairman's performance is in turn appraised by the non-executive directors. Remuneration is directly linked to these reviews and 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.

The Board of Shore Capital Group Limited met seven times during 2017. The number of meetings of the Board and the Audit and Remuneration Committees and individual attendance by members is set out in the following table.

	Board	Audit	Remuneration
Total number of meetings in 2017	7	4	1
Number of meetings attended in 2017:			
Howard Shore	7	n/a	n/a
Lynn Bruce	7	4	n/a
Dr Zvi Marom	7	4	1
James Rosenwald III	7	3	1
Simon Fine*	4	n/a	n/a
David Kaye*	3	n/a	n/a

*appointed to the Board as of 19 May 2017

The Board has a formal schedule of matters reserved for its decision and delegates certain matters to committees as set out below. The 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.

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 comprised two non-executive directors, James Rosenwald III and Dr Zvi Marom, and is chaired by James Rosenwald III. Lynn Bruce was appointed to the committee to replace Dr Zvi Marom on 6 December 2017. 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.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 to 13, together with the financial position of the Group, its liquidity position and borrowing facilities. In addition note 25 to the financial statements includes 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.

Internal control

The Board of Directors has overall responsibility for the Group's systems of internal controls, including financial, operational and compliance, which are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and comply with the Financial Reporting Council risk guidance. The controls are used in identifying, evaluating and managing significant risks of the Group on an ongoing basis. These internal controls have been in place from the start of the year through to the date of approval of this report. They include:

- ensuring that an appropriate organisational structure exists with clear lines of responsibility and delegation of authority;
- the allocation of responsibility for important business functions to experienced and suitably qualified staff;
- detailed budgets and plans which are approved by the Group Board;
- regular consideration by the Board of actual results compared with budgets and forecasts;
- compliance by subsidiaries with Group operating procedures and policies;
- annual review of the Group's insurance cover;
- defined procedures for the appraisal and authorisation of capital expenditure and capital disposals; and
- regular reporting of the Group's liquidity position.

An internal annual review has been carried out of the effectiveness of the Group's systems of internal financial controls. In addition, the Group has considered the need to introduce a group internal audit function but has decided that it is inappropriate for a Group of this size. It should be noted that many of the activities which would be covered by such a function are already carried out as part of the compliance function.

Relations with shareholders

The Group communicates with shareholders through both the interim and annual reports. In addition, all shareholders may attend the Company'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 Board.

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2017.

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 on pages 4 to 13. 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 26. An interim dividend of 5.0p per share was paid during the year (2016: nil). The directors propose a final dividend of 5.0p per share for the year ended 2017 (2016: 5.0p per share) making a total for the year of 10.0p (2016: 5.0p per share). The dividend will be paid on Wednesday 25 April 2018 to shareholders on the register as at Friday 6 April 2018. Further detail of dividends paid in the year can be found in note 8.

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 24 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:

	2017 £'000	2016 £'000
Group		
Capital resources per statement of financial position	67,170	67,085
Less non EU resources	(32,127)	(31,091)
Capital resources	35,043	35,994
Less Capital Resources Requirement	(8,988)	(8,741)
Surplus capital resources	26,055	27,253

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, 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 25. 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 2017	31 December 2016
Howard Shore	**9,533,696**	8,941,497
Lynn Bruce	**50,000**	27,027
Simon Fine*	**283,407**	n/a
David Kaye*	**57,944**	n/a
Dr Zvi Marom	**95,182**	45,182
James Rosenwald III	**538,412**	138,412

*appointed to the Board as of 19 May 2017

The beneficial interests of the directors in share options over ordinary shares of the Company are set out in note 6e to the financial statements.

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 £264,000 (2016: £43,000) during the year.

Acquisition of the Company's own shares and issue of shares

During the period the Group repurchased for cancellation 621,598 of its ordinary shares of no par value ("Ordinary Shares") at a price of £2.38 per share and a further 320,000 at £2.40 per share, a total cancellation of £2,248,000.

The Group also issued 746,129 new ordinary shares of no par value pursuant to the exercise of options at £2.05 per share totalling £1,530,000.

Events after the balance sheet date

Details of events after the balance sheet date are set out in note 27.

Going concern

The Group's liquidity position is set out in note 19 and its borrowing facilities in note 21. In addition, note 25 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 29 March 2018:

	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.

Statement of Directors' 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 have expressed their 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
- 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
29 March 2018

Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

Officers and Professional Advisers

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

*Non-executive

Secretary
Lynn Bruce

Company Number
51355

Registered Office
Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

Registrar
Computershare Investor Services
(Guernsey) Limited
3rd Floor
Natwest House
Le Truchot
St Peter Port
Guernsey GY1 1WD

Legal Adviser
Carey Olsen
Carey House
Les Banques
St Peter Port
Guernsey GY1 4BZ

Auditor
BDO Limited
Place du Pré
Rue du Pré
St Peter Port
Guernsey GY1 3LL

Bankers
Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey GY1 4BQ

Nominated Adviser
Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Broker
Shore Capital Stockbrokers Ltd
Bond Street House
14 Clifford Street
London W1S 4JU

Offices

Guernsey
Martello Court
Admiral Park
St Peter Port
Guernsey
GY1 3HB
+44 (0)1481 724 222

London
Bond Street House
14 Clifford Street
London
W1S 4JU
United Kingdom
+44 (0)20 7408 4090

Liverpool
The Corn Exchange
Fenwick Street
Liverpool
L2 7RB
United Kingdom
+44 (0)151 600 3700

Edinburgh
76 George Street
2nd Floor
Edinburgh
EH3 OSY
United Kingdom
+44 (0)20 7079 1670

Berlin
Pariser Platz 4a
Berlin
10117
Germany
+49 30 204 587 100

Independent Auditors' 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 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, 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 2017 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 applied 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.

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.

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 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 have obtained and reviewed service organisation control reports from service providers responsible for clearing and settlement of trades to consider any findings that would impact the audit approach • We tested the operating effectiveness of the general IT control environment in respect of the trading system • We walked a sample of trades through the system, calculated the market making gain or loss and verified the settlement of these through third party confirmations and reconciled the total transactions to cash movements • We re-performed a sample of monthly reconciliations between the trading system and the general ledger • We vouched monthly receipts of commission to • bank and agreed to reports from the relevant service organisation • We obtained confirmation of the trading income from the relevant service organisation. **Corporate finance deal fees and placing commissions** • We have 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 • 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 As described in note 1 to the financial statements, the group earns revenue from the Asset Management division arising from fund management fees and other ancillary fees. 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 a sample of management fees with reference to the underlying investment management agreements • We verified a sample of the inputs into the management fee calculation by agreeing the underlying fund asset values to the latest available financial information • We recalculated a sample of arrangement and deal fees with reference to the underlying agreements and reviewed and challenged the accounting treatment and recognition criteria • We reviewed a sample of invoices raised after the year end and compared these with the accrued income balance to determine whether the income recognised in the Consolidated Income Statement for the year is materially correct.

Independent Auditors’ Report to the Members of Shore Capital Group Limited continued

Key Audit Matter	How we addressed the Key Audit Matter in the Audit
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 14) and intangible (note 13) assets that are required to be considered for indicators of impairment. The valuation of principal finance investments and the consideration of impairment of tangible and intangible assets 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: • We reviewed the valuation reports prepared by management in respect of unquoted principal finance investments and challenged the assumptions inherent therein with reference to independent information where available and the audit team’s own knowledge and research • We reviewed the historical financial statements and recent management information available for unquoted investments used to support assumptions used in the valuations • We reviewed management’s consideration of indicators of impairment, as well as performing our own assessment, for the relevant tangible and intangible assets at 31 December 2017 • We obtained evidence for and challenged the assumptions used in management’s value in use models and/or estimates of fair value less costs to sell with reference to independent information where available.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be £578,000, which represents 7.5% of the average profit before tax for the last 3 years, excluding impairments. We used 3 years as the benchmark is subject to variability from year to year. 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. Materiality represents 1.42% of adjusted net assets.

Our audit work on each 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 65% of materiality, namely £375,000.

We agreed with the Audit Committee that we would report to them all audit differences in excess of £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 its components.

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.

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, 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.

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 on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

BDO Limited
Chartered Accountants
Place Du Pre
Rue Du Pre
St Peter Port
Guernsey
Channel Islands

29 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Notes	Total 2017 £'000	Total 2016 £'000
Revenue	1, 2	**41,896**	39,408
Administrative expenditure		**(35,906)**	(34,187)
Balance sheet impairments	3	**(1,883)**	(2,664)
Share of results of associates	3	**805**	–
Operating profit	3	**4,912**	2,557
Interest income	4	**95**	239
Finance costs	5	**(430)**	(391)
		(335)	(152)
Profit before taxation	2	**4,577**	2,405
Taxation	7	**(912)**	(554)
Profit for the year		**3,665**	1,851
Attributable to:			
Equity holders of the parent		**2,826**	1,302
Non-controlling interests		**839**	549
		3,665	1,851
Earnings per share			
Basic	9	**13.1p**	6.0p
Diluted	9	**12.8p**	5.8p

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 2017

	Total 2017 £'000	Total 2016 £'000
Profit after tax for the year	**3,665**	1,851
Items that may be reclassified to the income statement		
Losses on revaluation of available-for-sale investments	**(14)**	(43)
Gains on cash flow hedges	**105**	70
Tax thereon	**(20)**	(14)
	71	13
Exchange difference on translation of foreign operations	**516**	468
Other comprehensive income for the year, net of tax	**587**	481
Total comprehensive income for the year, net of tax	**4,252**	2,332
Attributable to:		
Equity holders of the parent	**3,260**	1,582
Non-controlling interests	**992**	750
	4,252	2,332

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Goodwill	12	**381**	381
Intangible assets	13	**2,229**	2,135
Property, plant & equipment	14	**7,699**	9,423
Investment properties	15	**–**	2,885
Principal Finance Investments	16	**6,475**	8,221
Deferred tax asset	7	**149**	–
		16,933	23,045
Current assets			
Trading assets	17	**8,154**	12,290
Trade and other receivables	18	**52,767**	51,774
Derivative financial instruments		**32**	123
Cash and cash equivalents	19	**35,673**	23,937
		96,626	88,124
Total assets	2	**113,559**	111,169
Current liabilities			
Trading liabilities	11	**(1,017)**	(765)
Trade and other payables	20	**(34,602)**	(31,126)
Derivative financial instruments		**(12)**	(224)
Tax liabilities		**(966)**	(770)
Borrowings	21	**(9,726)**	(431)
		(46,323)	(33,316)
Non-current liabilities			
Borrowings	21	**–**	(10,649)
Deferred tax liability	7	**–**	(15)
Provision for liabilities and charges	22	**(66)**	(104)
		(66)	(10,768)
Total liabilities	2	**(46,389)**	(44,084)
Net assets		**67,170**	67,085
Capital and reserves			
Share capital	24	**–**	–
Share premium		**1,866**	336
Merger reserve		**14,903**	17,151
Other reserves		**1,596**	1,596
Retained earnings		**39,882**	39,587
Equity attributable to equity holders of the parent		**58,247**	58,670
Non-controlling interest		**8,923**	8,415
Total equity		**67,170**	67,085

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29 March 2018. 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 2017

	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 2016	–	336	17,151	2,164	38,845	8,546	67,042
Profit for the year	–	–	–	–	1, 302	549	1,851
Revaluation of available for sale investments	–	–	–	(43)	–	–	(43)
Foreign currency translation	–	–	–	–	278	190	468
Valuation change on cash flow hedge	–	–	–	56	–	14	70
Tax on cash flow hedge (note 7)	–	–	–	(11)	–	(3)	(14)
Total comprehensive income	–	–	–	2	1,580	750	2,332
Decrease in deferred tax asset recognised directly in equity (note 7)	–	–	–	(581)	–	–	(581)
Dividends paid to / rebalancing of non controlling interests	–	–	–	–	(838)	(1,221)	(2,059)
Credit in relation to share based payments	–	–	–	11	–	–	11
Investment by non-controlling interest in subsidiaries	–	–	–	–	–	340	340
At 31 December 2016	–	336	17,151	1,596	39,587	8,415	67,085

	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 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 7)	**–**	**–**	**–**	**(16)**	**–**	**(4)**	**(20)**
Total comprehensive income	**–**	**–**	**–**	**54**	**3,206**	**992**	**4,252**
Decrease in deferred tax asset recognised directly in equity (note 7)	**–**	**–**	**–**	**(62)**	**–**	**–**	**(62)**
Equity dividends paid (note 8)	**–**	**–**	**–**	**–**	**(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/cancellation of own shares (note 24)	**–**	**–**	**(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**

The accompanying notes form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Operating profit		4,912	2,557
Adjustments for:			
Depreciation and impairment charges	2	2,775	3,534
Share-based payment expense		8	11
Fair value losses/(gains) on Principal Finance investments	16	320	(255)
Share of results of associate	3	(805)	–
Reduction on provision for national insurance on options		(38)	(431)
Operating cash flows before movements in working capital		7,172	5,416
(Increase)/decrease in trade and other receivables		(902)	19,896
Increase/(decrease) in trade and other payables		3,369	(12,765)
Increase/(decrease) in trading liabilities		252	(181)
Decrease/(increase) in trading assets		4,136	(2,946)
Cash generated by operations		14,027	9,420
Interest paid		(430)	(391)
Corporation tax paid		(962)	(717)
Net cash generated by operating activities		12,635	8,312
Cash flows from investing activities			
Purchase of property, plant & equipment	14	(681)	(517)
Sale of property, plant & equipment	14	80	–
Sale /(purchase) of investment property	15	2,885	(2,885)
Investment in associate		(7,000)	–
Redemption of shares in associate		7,750	–
Income from associate		55	–
Purchase of Principal Finance investments	16	–	(1,808)
Sale of Principal Finance investments	16	314	141
Interest received		95	239
Net cash generated by/(used in) investing activities		3,498	(4,830)
Cash flows from financing activities			
Issue of shares	24	1,530	–
Investment by non-controlling interest in subsidiaries		210	340
Repurchase of own shares	24	(2,248)	–
Decrease in borrowings	21	(393)	(430)
Dividends paid to equity shareholders	8	(2,167)	–
Dividends paid to non-controlling interests		(1,438)	(2,059)
Net cash used in financing activities		(4,506)	(2,149)
Net increase in cash and cash equivalents		11,627	1,333
Effects of exchange rate changes		109	491
Cash and cash equivalents at the beginning of the year	19	23,937	22,113
Cash and cash equivalents at the end of the year	19	35,673	23,937

The accompanying notes form part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

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

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the Group's financial statements.

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 are:

- IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (both mandatorily effective for periods beginning on or after 1 January 2018); and
- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019).

The Group is able to provide the following information regarding the likely impact of these three key new accounting standards:

IFRS 9 Financial Instruments

The Group has identified that the adoption of IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018, will not materially impact its consolidated financial statements. In coming to this judgement the Group has considered two key areas:

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 will therefore not change under IFRS 9. However, at year end the Group held £513,000 of investments as available-for-sale which will be classified as being at fair value through profit or loss under IFRS 9. This will mean that all changes in the fair value up to the point of disposal will be recorded in the consolidated income statement. In addition, the balance on the available-for-sale reserve at 31 December 2017 of £48,000, which represents cumulative gains on available-for-sale assets held by the Group at that date, will not be available for reclassification to other comprehensive income in future periods when the investment is sold.

Impairment:

The Group will need to apply 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 Group does not consider that this will result in increased impairment provisions as amounts written off in 2017 represent only 0.1% of all trade and other receivables.

Transition:

The standard will be adopted from 1 January 2018 and applied retrospectively by adjusting where necessary, the opening balance sheet at the date of initial application, with no requirement to restate comparative periods.

1. Accounting Policies continued

IFRS 15 Revenue from Contracts with Customers
This standard will be adopted on its mandatorily effective date, and the standard will be applied on a retrospective basis, recognising the cumulative effect, if any, of initially applying the standard as an adjustment to 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 where necessary and therefore has assessed the impact of the new revenue standard to have no significant effect on the consolidated results.

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 2017 operating lease commitments amounted to £3.0 million. Further work will be carried out in the course of 2018 to determine the right-of-use assets and lease liabilities to be recognised on 1 January 2019, during which the Group's lease profile is likely to change. Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets.

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.

Basis of accounting
The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. 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:

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 7.

1. Accounting Policies continued

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.

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 16, 17 and 25(f).

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 6(c).

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.

Revenue
Revenue includes the net profit/loss on principal trading, commission income, corporate advisory fees, fund management fees and other ancillary fees.

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.

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.

1. Accounting Policies continued

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.

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 9).

1. Accounting Policies continued

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.

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.

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 premises	—	over the unexpired term of the lease
Fixtures and equipment	—	25-33% per annum
Rental Asset	—	4% per annum
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. 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.

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.

1. Accounting Policies continued

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.

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 25 (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.

1. Accounting Policies continued

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.

Impairment of financial assets
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.

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.

1. Accounting Policies continued

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.

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.

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 available-for-sale investments.

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 AIM and small cap stocks, fixed income broking and corporate broking and advisory for 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 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)**

No material amounts of revenue or profit before tax were generated outside Europe.

Year ended 31 December 2016	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Consolidated £'000
Revenue	28,286	10,446	–	676	39,408
Results					
Balance sheet impairments	–	–	–	(2,664)	(2,664)
Depreciation	(298)	(85)	(57)	606	(1,046)
Interest expense	(64)	–	–	327	(391)
Profit/(loss) before tax	6,787	1,980	(2,119)	(4,243)	2,405
Assets	61,503	5,894	3,535	40,237	111,169
Liabilities	(29,274)	(2,149)	(828)	(11,833)	(44,084)

No material amounts of revenue or profit before tax were generated outside Europe.

3. Operating Profit

	2017 £'000	2016 £'000
Operating profit has been arrived at after recognising /(charging):		
Share of results of associates	**805**	–
Depreciation	**(891)**	(1,046)
Balance sheet impairments	**(1,883)**	(2,664)
Property lease rentals	**(1,152)**	(673)
Exchange differences, excluding those arising on financial instruments		
Exchange differences	**32**	(119)

Share of results of associates comprises 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 year end, the Group retains a 33% interest of immaterial value. It is accounted for using the equity method described in note 1.

4. Interest Income

	2017 £'000	2016 £'000
Bank interest	8	19
Other interest receivable	87	220
	95	239

5. Finance Costs

	2017 £'000	2016 £'000
Interest on bank overdrafts and loans	430	391
	430	391

6. Employees and Directors

a) Employee numbers

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

	2017 No.	2016 No.
Capital Markets – Securities	80	74
– Corporate Advisory	15	14
Asset Management	68	58
	163	146

b) The costs incurred in respect of these employees comprise

	2017 £'000	2016 £'000
Salaries and commission	18,819	17,798
Social security costs	2,099	1,668
Pension costs	293	487
	21,211	19,953

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 2017, there were 982,727 (2016: 1,528,856) 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:

	2017		2016	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	1,553,856	188p	1,674,073	189p
Granted during the year	200,000	250p	–	n/a
Cancelled during the year	–	n/a	(120,217)	205p
Exercised during the year	(746,129)	205p	–	n/a
Outstanding at the end of the year	1,007,727	188p	1,553,856	188p
Exercisable at the end of the year	807,727		1,553,856	

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 3.2 years (2016: 2 years).

6. Employees and Directors continued

d) Emoluments of the Directors of the Company

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**

2016	Gross salary £'000	Bonus, commission and other income £'000	Benefits £'000	Total £'000
Howard Shore	200	600	62	862
Lynn Bruce	40	–	–	40
Dr Zvi Marom	40	–	–	40
James Rosenwald III	40	–	–	40
	320	600	62	982

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 31 January 2022
Simon Fine	472,727	21 November 2002	110p	5 January 2019

The closing price of the ordinary shares at 31 December 2017 was 207.5p (2016: 227.5p) and the range during the year was 207.5p to 254.0p.

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.

During the year Directors exercised 592,199 options granted in previous years, at an exercise price of 205p.

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: £965,000 (2016: £221,000) to The Lily Partnership Limited and £2,493,000 (2016: £2,354,000) to Puma Property Investment Advisory Limited. Amounts owed to the Group at the year end from PBL were £908,000 (2016: £445,579). PBL is a related party as it has a high degree of common ownership.

g) Compensation of key management personnel
Excluding directors of the parent company (see note 6.d) the remuneration of key management during the year was as follows:

	2017 £'000	2016 £'000
Salaries and other short-term benefits	**2,619**	3,260

7. Taxation

	2017 £'000	2016 £'000
The tax charge comprises:	£'000	£'000
Current tax	1,176	1,208
Prior year overprovision	(69)	(1)
Movement in deferred tax	(195)	(653)
	912	554

Tax in Guernsey is charged at 0%. Tax on the Group's UK subsidiaries is charged at 19.25% (2016: 20.00%) as detailed below:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	4,577	2,405
Tax thereon at 19.25% (2016: 20.0%)	881	481
Effects of:		
Expenses not deductible for tax purposes	166	80
Income not (chargeable)/deductible to tax	(66)	(2)
Movement in deferred tax not recognised	–	(4)
Prior year adjustment	(69)	(1)
	912	554

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 2017 was therefore 19.25% (2016: 20.0%). 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 2016	731	(603)	128
Credit to income statement	2	651	653
Debit comprehensive income	–	(215)	(215)
Debit to equity	(581)	–	(581)
At 31 December 2016	152	(167)	(15)
(Debit)/credit to income statement	(2)	197	195
Debit comprehensive income	–	(20)	(20)
Debit equity	(62)	–	(62)
Retranslation movement	–	51	51
At 31 December 2017	88	61	149

8. Dividends

	2017 £'000	2016 £'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	–
	2,167	–

The directors propose a final dividend of 5.0p per share, bringing the total for the year ended 2017 to 10.0p per share.

9. 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 2017 there were 21,573,322 ordinary shares in issue (2016: 21,768,791). Movements in the number of shares in issue during the year are set out in note 24.

	2017		2016	
	Basic	Diluted	Basic	Diluted
Earnings (£)	2,826,000	2,826,000	1,302,000	1,302,000
Number of shares	21,645,329	22,019,172	21,768,791	22,347,760
Earnings per share (p)	13.1	12.8	6.0	5.8

Calculation of number of shares

	2017		2016	
	Basic	Diluted	Basic	Diluted
Weighted average number of shares	21,645,329	21,645,329	21,768,791	21,768,791
Dilutive effect of share option schemes	–	373,843	–	578,969
	21,645,329	22,019,172	21,768,791	22,347,760

10. Lease Commitments

At 31 December 2017 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Total lease payments under operating leases recognised as an expense during the year:	1,152	673

Operating lease

	2017 £'000	2016 £'000
Amounts payable in under one year	1,090	788
Amounts payable between one and five years	1,343	876
Amounts payable between five and ten years	597	–
	3,030	1,664

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

Operating leases – as a lessor

	2017 £'000	2016 £'000
Amounts receivable in under one year	–	206
Amounts receivable between one and five years	–	823
Amounts receivable after five years	–	4,115
	–	5,144

Operating lease receipts represented rentals receivable by the Group on its investment property which was disposed of in the year.

11. Categories of Financial Assets and Liabilities

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
Accruals	–	–	–	–	1,032	1,032
Other liabilities	–	–	–	–	7,172	7,172
	–	1,029	–	–	44,328	45,357
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.

11. Categories of Financial Assets and Liabilities continued

As at 31 December 2016	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	–	–	–	–	23,937	23,937
Trading assets	208	12,082	–	–	–	12,290
Trade receivables in the course of collection	–	–	–	–	42,585	42,585
Principal Finance investments	10,579	–	–	527	–	11,106
Derivatives	–	123	–	–	–	123
Accrued income	–	–	1,767	–	–	1,767
Other assets	–	–	–	–	6,242	6,242
	10,787	12,205	1,767	527	72,764	98,050
Goodwill						381
Intangible assets						2,135
Property, plant & equipment						9,423
Total assets per balance sheet						111,169
Financial liabilities						
Bank overdrafts and borrowings	–	–	–	–	11,080	11,080
Trading positions	–	765	–	–	–	765
Trade creditors in the course of collection	–	–	–	–	159	159
Derivatives	–	224	–	–	–	224
Accruals	–	–	–	–	1,773	1,773
Other liabilities	–	–	–	–	29,194	29,194
	–	989	–	–	42,206	43,195
Tax liabilities						770
Provision for liabilities and charges						104
Deferred tax liability						15
Total liabilities per balance sheet						44,084

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

12. Goodwill

	2017 £'000	2016 £'000
Goodwill	**381**	381

The goodwill balance relates to the acquisition of shares of a subsidiary in the Capital Markets division.

There has been no impairment in the value of the asset, as the business continues to generate profits and positive cashflows (note 2) and is forecast to do so for the foreseeable future.

13. Intangible assets

	£'000
Cost	
At 1 January 2016	1,841
Retranslation movement	294
At 31 December 2016	2,135
Retranslation movement	**94**
At 31 December 2017	**2,229**
Carrying amount	
At 31 December 2017	**2,229**
At 31 December 2016	2,135

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.

14. Property, Plant and Equipment

	Leasehold premises £'000	Fixtures and equipment £'000	Asset rental £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2016	890	3,789	13,782	242	18,703
Additions	–	374	44	99	517
Disposals	–	(2)	–	–	(2)
Retranslation movement	–	46	2,717	8	2,771
At 31 December 2016	**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**
Depreciation					
At 1 January 2016	890	2,596	4,277	76	7,839
Charge for the year	–	395	606	45	1,046
Impairment for the year	–	–	2,488	–	2,488
Retranslation movement	–	–	1,146	–	1,146
Disposals	–	41	–	6	47
At 31 December 2016	**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**
Net Book Value					
At 31 December 2017	**–**	**1,437**	**6,131**	**131**	**7,699**
At 31 December 2016	–	1,175	8,026	222	9,423

The Group carries out an annual review of the recoverable amount of the rental asset used in the Principal Finance reporting segment. The review led to an impairment charge of £772,000 (£498,000 after tax and minority interests), which has been recognised in the Income Statement. The Group estimated the fair value less costs of disposal of the rental asset as £6,131,000, based on a review of the published market values of comparable assets.

15. Investment property

	2017 £'000
At 1 January 2016	–
Additions	2,885
At 31 December 2016	2,885
Disposals	**(2,885)**
At 31 December 2017	**–**

In the prior year the Group purchased an investment property. This property was disposed of during the year and formed part of the Group's investment into its new associate, Puma Social Care Investments.

16. Investments

Principal Finance Investments

	Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2016	1,298	5,043	6,341
Additions	747	1,061	1,808
Disposals	–	(141)	(141)
Revaluation in the year	(369)	582	213
At 31 December 2016	**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**

Classification

	Available for sale £'000	Fair Value through profit or loss £'000	Total £'000
At 31 December 2017	**513**	**5,962**	**6,475**
At 31 December 2016	527	7,694	8,221

16. Investments continued

Additional information on principal subsidiaries.

Subsidiary	Country of registration and operation	Activity	Portion 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	Property advisory services	100%
Spectrum Investments Limited[1]	Guernsey	Holds investments	59.9%
DBD Deutsche Breitband Dienste[1]	Germany	Telecoms	89.3%
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]	Guernsey	Intermediate Holding Co.	77.8%
Puma Investment Management Limited[3]	England and Wales	Fund Management	91.8%
Shore Capital Limited[3]	England and Wales	Fund Management	77.8%
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	England and Wales	Member of an LLP	100%
Puma Ranger European Small and Mid-Cap Limited	Guernsey	Equity investment	83.3%
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 held 89.3% of the ordinary shares and voting rights in, DBD Deutsche Breitband Dienste. As at 31 December 2017, the Company had a direct holding of 59.9% in Spectrum Investments Limited. The balance of the shares in each of Spectrum Investments Limited and DBD Deutsche Breitband Dienste were 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. The Company currently has 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.

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. The Group currently has a direct holding of 77.8% 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 91.8% 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.

Non controlling interests

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

			Relating to non-controlling interests		
	Profit/(loss) for the year £'000	Net assets at 31/12/2017 £'000	**Profit/(loss) for the year £'000**	**Net assets at 31/12/2017 £'000**	**Dividends paid in the year £'000**
Spectrum Investments Limited / DBD	(307)	4,477	**(126)**	**1,828**	**–**
Shore Capital Markets Limited	4,091	33,048	**833**	**6,716**	**1,033**
Puma Investment Management Limited	1,515	2,898	**148**	**289**	**405**
Shore Capital International Asset Management Limited	1,870	3,391	**377**	**697**	**–**
Shore Capital Management Limited	(1,988)	(3,144)	**(398)**	**(655)**	**–**
Puma Ranger European Small and Mid-Cap Limited	31	299	**5**	**48**	**–**
			839	**8,923**	**1,438**

17. Trading assets and Other Holdings at fair value

	2017 £'000	2016 £'000
Held for Trading		
Listed holdings at market value		
Equities	4,778	3,316
Debt instruments	2,814	8,766
	7,592	12,082

	2017 £'000	2016 £'000
Designated at fair value		
Unlisted holdings:		
Other (including hedge funds)	562	208
	562	208
	8,154	12,290

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 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.

18. Trade and Other Receivables

	2017 £'000	2016 £'000
Trade receivables	46,610	42,585
Other receivables	2,202	6,242
Prepayments and accrued income	3,955	2,947
	52,767	51,774

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.

	2017 £'000	2016 £'000
Between 30 and 60 days	23	90
Between 60 and 90 days	126	37
Greater than 90 days	150	28
	299	155
Amounts not yet due	52,468	51,619
Trade receivables	52,767	51,774

18. Trade and Other Receivables continued

	£'000
Movement in the allowance for doubtful debts	
At 1 January 2016	70
Increase in the allowance	31
Amounts recovered during the year	(9)
Amounts written off	(20)
At 31 December 2016	72
Increase in the allowance	12
Amounts written off	(68)
At 31 December 2017	16

Trade receivables are shown net of provision for doubtful debts amounting to £16,000 (2016: £72,000).

19. Cash and Cash Equivalents

Analysis of Changes in Net Funds

	As at 1 January 2017 £'000	Cash flows £'000	As at 31 December 2017 £'000
Cash at bank and in hand	23,937	11,736	35,673

20. Trade and Other Payables

	2017 £'000	2016 £'000
Trade creditors	26,398	22,449
Other creditors	6,038	5,984
Other taxation and social security	1,134	920
Accruals and deferred income	1,032	1,773
	34,602	31,126

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

21. Borrowings

	2017 £'000	2016 £'000
Bank loans at amortised cost	9,726	11,080
Amount due to be repaid within 12 months	9,726	431
Amount due to be repaid after 12 months	-	10,649

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

21. Borrowings continued

	Amortising USD loan facility £'000	Total £'000
As at 31 December 2016		
Bank loans	11,080	11,080

The Group has a GBP facility comprising a multi-option overdraft facility and a revolving credit facility which are secured by a floating charge over the assets of the Group's stockbroking subsidiary. Both facilities were undrawn as at 31 December 2016 and 31 December 2017.

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

	2017 %	2016 %
Bank overdrafts	**2.25**	2.25
Bank loans	**3.10**	3.10

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

(i) Sterling based facilities of £20,000,000 in total comprising a multi-option overdraft facility of £15,000,000 and a revolving credit advance facility of £5,000,000. Under this facility, the Group has the option to draw down a fixture for a fixed maturity or an overdraft which is repayable on demand. The average effective interest rate on bank overdrafts was approximately 2.25% per annum (2016: 2.25%) and was determined on a base rate plus a margin. Both facilities were undrawn as at 31 December 2017.
(ii) an amortising loan of $13,133,000 (2016: $13,664,000) in its asset rental subsidiary, and for which the Group has liability for 80%. The principal is repayable in quarterly instalments with a final bullet repayment due on 31 March 2018. The loan is secured by a charge over the Group's rental asset. The loan carries an interest rate at 1.0% above 3 month USD LIBOR.

Undrawn Facilities
The Group's sterling based loan facility of £20,000,000 is structured as a multi option facility of £15,000,000 and a revolving credit facility of £5,000,000. As at the year end, £15,000,000 (2016: £15,000,000) was undrawn on the multi-option facility and £5,000,000 (2016: £5,000,000) was undrawn on the revolving credit advance facility.

22. Provision for Liabilities and Charges

Provision for National Insurance contributions on share options:

	2017 £'000	2016 £'000
At 1 January	**104**	535
Credit in the year	**(38)**	(431)
At 31 December	**66**	104

This provision will be utilised when staff exercise their options during the period of 1 January 2018 to 31 January 2022.

23. Capital Commitments

There were no amounts which were contracted for but not provided in the financial statements (2016: £nil). During 2015, the Company made a commitment of €12.5 million to the Brandenburg Realty Fund of which €8.75 million was undrawn as at 31 December 2017.

24. Share Capital

	Number of shares	£'000
Shore Capital Group Limited – ordinary shares of nil par value		
At 1 January 2016 and 31 December 2016	21,768,791	-
Shares repurchased and cancelled	(941,598)	-
Shares issued	746,129	-
At 31 December 2017	**21,573,322**	**-**

During the year, the Group repurchased for cancellation 621,598 of its ordinary shares of nil par value ("Ordinary Shares") at a price of £2.38 per share and a further 320,000 at £2.40 per share, resulting in a total cancellation of £2,247,000.

The Group also issued 746,129 new ordinary shares of nil par value pursuant to the exercise of options by employees. These options were granted in prior years under the terms of the Share Option Plan. The options were exercised at a price of £2.05 per share giving a total of £1,530,000 (2016: nil)..

25. 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 21), cash and cash equivalents (see note 19), 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

	Designated at fair value £'000	Held for trading £'000	Available-for-sale securities £'000	Total £'000
2017				
Equities	**(1,419)**	**10,506**	**(14)**	**9,073**
Debt	**61**	**-**	**-**	**61**
	(1,358)	**10,506**	**(14)**	**9,134**
2016				
Equities	35	9,595	213	9,843
Debt	143	-	-	143
	178	9,595	213	9,986

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 17 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 seeding of own Funds which have been launched (details of which are set out in the Chairman's Statement) and 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 2017. 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 and the Compliance Department.

25. 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.

	2017			2016		
	Net equity £'000	Change in price of UK equities %	Effect on profit and on equity £'000	Net equity £'000	Change in price of UK equities %	Effect on profit and on equity £'000
Trading assets – equities (note 17)	4,778	10%	478	3,316	10%	332
Trading liabilities	(1,017)	10%	(102)	(765)	10%	(77)
Listed Principal Finance Investments	1,496	10%	150	1,676	10%	168

b) Currency Risk

Other than borrowings as set out in note 21, 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 available-for-sale investments, trading assets and other holdings which were denominated in foreign currencies was:

	2017 £'000	2016 £'000
Held in United States Dollars	184	–
Held in Euros	–	12
	184	12

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 asset of £30,000 (2016: £123,000 net asset). The related notional contracts as at 31 December 2017 were £7,052,000 (2016: £10,719,000). These were all due to mature in January 2018.

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

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:

	2017			
	Euro £'000	US Dollar £'000	Euro £'000	US Dollar £'000
10% Stronger against GBP	364	(954)	460	(1,246)
10% Weaker against GBP	(298)	781	(376)	1,020

Profits shown as positives, losses as negatives.

25. Financial Instruments continued

c) Interest Rate Risk

The Group's exposure to long-term fixed borrowings is set out in note 21. 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 £15m overdraft facility and a £5m revolving credit facility which are both renewable annually. These facilities pay interest at rates linked to money market rates. The Group also has an amortising loan of $13,133,000 for which there is a cash flow hedge to fix the variable rate of interest and has been set to maximise hedge effectiveness. The Group settles the difference between the fixed and floating rate on a net basis each quarter. The fair value of the cashflow hedge at year end was £10,000 (2016: £117,000). The bank borrowings are described in more detail in note 21.

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:

	2017 £'000	2016 £'000
+100 basis point movement in interest rates	37	11
As percentage of total shareholders' equity	0.063%	0.019%

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

d) Credit Risk

The Group's principal financial assets 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:

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

	2016 £'000
TD Waterhouse	13,882
UBS AG	2,989
Redmayne Bentley	2,154
Hargreave Lansdown Stockbrokers	896
Simply Stockbroking	732
	20,653

25. 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 21 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:

2017

	Repayable on demand £'000	Due within 3 months £'000	Due between 3 months and 12 months £'000	Due between 1 year and 5 years £'000	Total £'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	-	5,870	1,302	-	7,172
	189	42,891	1,312	-	44,392

2016

	Repayable on demand £'000	Due within 3 months £'000	Due between 3 months and 12 months £'000	Due between 1 year and 5 years £'000	Total £'000
Trading liabilities	-	765	-	-	765
Trade payables	159	22,290	-	-	22,449
Derivatives – gross settled	-	107	-	-	107
Derivatives – net settled	-	-	-	117	117
Bank loans and overdrafts	-	188	560	11,101	11,849
Other liabilities	-	5,235	1,177	-	6,412
	159	28,585	1,737	11,218	41,699

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.

25. 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 available-for-sale 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).

2017

	Level 1 Quoted market price £'000	Level 2 Market observable inputs £'000	Level 3 Non-market observable inputs £'000	Total £'000
Principal Finance Investments	1,496	-	4,979	6,475
Trading assets and other holdings at fair value	8,154	-	-	8,154
Financial instruments	-	32	-	32
Total financial assets	9,650	32	4,979	14,661
Trading liabilities	1,017	-	-	1,017
Financial instruments	-	12	-	12
Total financial liabilities	1,017	12	-	1,029

2016

	Level 1 Quoted market price £'000	Level 2 Market observable inputs £'000	Level 3 Non-market observable inputs £'000	Total £'000
Principal Finance Investments	1,676	-	6,545	8,221
Trading assets and other holdings at fair value	12,290	-	-	12,290
Financial instruments	-	123	-	123
Total financial assets	13,966	123	6,545	20,634
Trading liabilities	765	-	-	765
Financial instruments	-	224	-	224
Total financial liabilities	765	224	-	989

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

25. Financial Instruments continued

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.

In valuing the Group's investments, it was deemed that there had been a diminution of value in one of the unlisted level 3 investments leading to an impairment charge of £1,112,000 in the year, which has been recognised in the Income Statement and is not expected to reverse. The fair value of this investment was estimated by applying a yield of 10% to the anticipated future income receivable by the Group from the investment. If the yield were to be increased to 12.5% the fair value of the investment would decrease by £220,000.

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 2017 £'000	Gains recorded in profit or loss £'000	Purchases and transfers £'000	Sales and transfers £'000	**At 31 December 2017 £'000**
Total financial assets	6,545	(1,253)	-	(313)	**4,979**

26. Regulatory Capital

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

	2017 £'000	2016 £'000
Capital resources per statement of financial position	**67,170**	67,085
Less non EU resources	**(32,127)**	(31,091)
Capital resources	**35,043**	35,994
Less Capital Resources Requirement	**(8,988)**	(8,741)
Surplus capital resources	**26,055**	27,253

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.

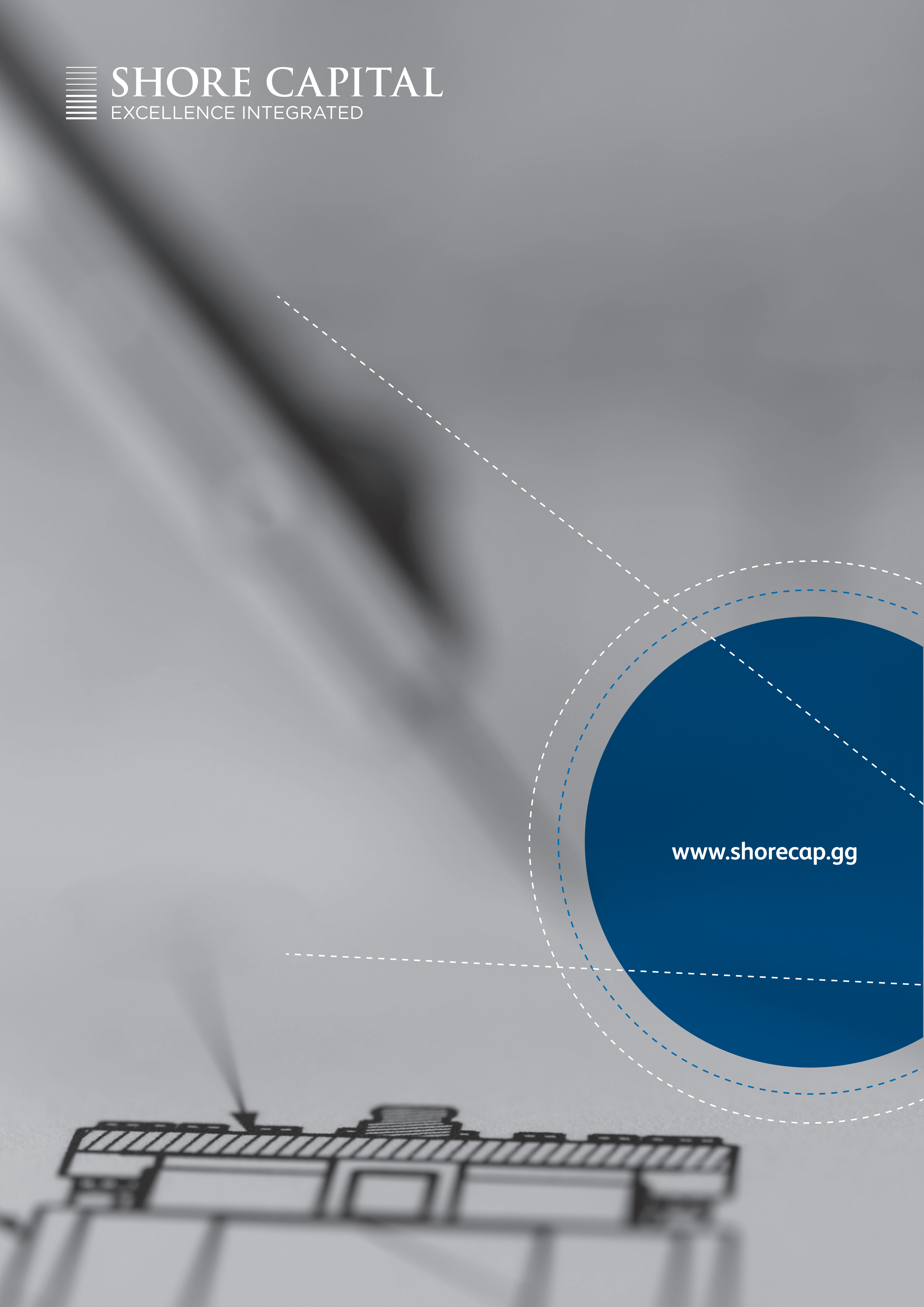
Capital resources are largely comprised of share capital and reserves. Capital requirements are derived from credit risk, market risk and operational risk considerations.

* 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.

27. Subsequent events

(i) On 29 March 2018, the Group repaid in full the balance due on its USD amortising loan (see note 21).

(ii) 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.


SHORE CAPITAL
EXCELLENCE INTEGRATED
www.shorecap.gg