Walker Crips Group PLC ("the Group") and Walker Crips Stockbrokers Limited

Pillar 3 disclosures

As at 31 March 2016

Introduction
These annual Pillar 3 disclosures are made in accordance with the UK Financial Conduct Authority ("FCA") Prudential Sourcebook for Banks, Building Societies and Investment Firms ("IFPRU")

Additional information (including IFRS 7 disclosures) can be found in the Group's Annual Report for the Year ended 31 March 2016. The information contained within the annual report is audited.

Consolidation
Within Walker Crips Group plc there are a number of regulated entities that report individually to the Financial Conduct Authority ("FCA"), including the main trading subsidiary Walker Crips Stockbrokers Limited ("WCSB"). For the purposes of these disclosures all companies within the Group for consolidated accounting purposes are included in these prudential calculations.

Tier 1 Capital Resources
The majority of Tier 1 capital comprises of ordinary shares (which may have been issued at a premium) and other reserves including retained earnings. The Intangible assets comprising of Goodwill and other intangibles are deducted in full in accordance with the prudential requirements. The Group's holding of Treasury shares and free deliveries arising from trading book exposures, have also been deducted in arriving at Tier 1 capital.

Tier 1 capital is made up as follows:	£'000
Ordinary share capital	2,595
Share premium	2,279
Retained earnings	10,597
Other reserves	4,668
Less: Intangible assets	(11,750)
Less: Treasury shares	(312)
Less: Free deliveries	(7)

Total tier 1 capital	8,070

Risk Management Objectives and Policies
As the parent company of a number of subsidiaries that are FCA authorised, Walker Crips Group plc is required by the EU Capital Requirements Directive to make public disclosure of its Risk Management objectives and policies in accordance with the requirements of Pillar 3 of the Directive and the Internal Capital Adequacy Assessment Process ("ICAAP") prescribed by the FCA.

Risk management is a central part of the organisation's strategic management. It is defined as the probability of an event occurring and the consequences or impact the risk would have to the organisation. Risk management focuses on identifying what could go wrong, evaluating and prioritising which risks are important to deal with, and implementing strategies to mitigate those risks. An effective risk management programme can increase a business's chances of success and reduce the possibility of failure. However continual assessment, monitoring and updating of procedures and benchmarks are all essential parts of the risk management strategy.

The main aspect of the risk management framework is the risk management system or Risk matrix which has been devised to provide an assessment of the main risks and to highlight areas which need to be targeted, having a high probability and impact, to ensure the organisation has sufficient regulatory capital to withstand failings in these areas.

Risk Management Policy / ICAAP Process

- Method of identifying risks and gauging their severity
- Record of risks mitigation
- Ongoing monitoring of risks and embedding risk management techniques
- Assurance processes
- Role, authority and responsibilities of internal audit
- Dedicated risk management personnel
- Board and committees reporting in respect of risk, audit and compliance

Procedures and controls are in place to identify, assess and ultimately control the inherent operational risks prevalent in every operation which generally arise through error or failure. Steps are taken to mitigate these risks with established and effective procedures and controls, efficient systems and the adequate training of staff.

The group adopts a three line of defence model to support its risk management framework. Under the framework responsibility and accountability for risk management are effectively broken down as follows.

First line; Senior management and operational business units are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk.

Second Line; The risk function and compliance function maintain a level of independence from the first line. They are responsible for providing oversight and challenge of the first line's day-to-day management, monitoring and reporting of risks to both senior management and governing bodies.

Third Line; The internal audit function is responsible for providing and independent assurance to both senior management and governing bodies as to the effectiveness of the group's governance, risk management and internal controls.

It is the group's policy to fully embed risk-based principles throughout the organisation and to maintain a risk control framework and register, known as the Risk Matrix, which is used to effectively identify, evaluate, monitor and control the risks of the business.

In addition, the main operating subsidiary, Walker Crips Stockbrokers Ltd (WCSB) issues a Report on Internal Control (AAF01/06) which provides key information about the control environment in operation at its nominee companies which is verified by an external auditor. Specifically, the controls and procedures described in this Report are those relating to custodial services provided to clients of WCSB in the United Kingdom.

The Directors of Walker Crips Stockbrokers Limited are committed to maintaining a strong control and compliance environment and ensuring that the management structure is appropriate to the scale of the business. The Directors have established a series of control objectives and procedures within a high-level control framework. The control principles that overlay the business of Walker Crips Stockbrokers Limited are reviewed annually and include:

- the main operating subsidiary, Walker Crips Stockbrokers Limited believes that approved persons, who know and regularly advise their clients, are the most appropriate persons to fulfil clients' investment objectives relative to their stated profile and appetite for risk;
- in support of the above principle, regular reviews and appraisals are carried out by the Compliance department and management to ensure that suitability rules are adhered to in relation to approved persons;
- the company is firmly committed to providing all the necessary resources, training and technology required to enable the nominee service to properly process existing and future clients' investment holdings;
- stringent recruitment procedures are in operation to ensure that only staff of the highest calibre are employed. Every aspect of our business, both before the transaction and after, depends on our people; and
- The Risk Management Committee (RMC) which includes the group Chief Executive Officer, Business Risk Director, Structured Investments Director, and Head of Group Compliance meet regularly throughout the year to review all new business initiatives and projects with a view to assessing and mitigating any inherent risks before implementation.

Effectiveness of Controls

- The Board has to review the effectiveness of the system of internal controls and risk management once a year and review the most significant individual risks. The Board appointed RMC will generally look at both on behalf of the Board, unless the risks fall under the responsibility of the Management Committee to receive reports on non-financial risk management.
- The Board sometimes receives information on risk management from other sources (if applicable): the Minutes of the relevant Committees or operating subsidiary Board which owns the risks as well as the Minutes of the BRP.
- Management provides a summary of its risk management and an affirmation of its responsibilities in the form of a signed off extract of the ICAAP Risk Matrix by the risk owner and approved by their Director.
- The impetus for this comes from the top. The Walker Crips Board sets the tone by putting risk management formally on the agenda for every Board meeting, with presentations of their risks by the Directors in charge of each division visible to the Non-Executive Directors. However, risks and their management should also be presented to the Full Board-appointed Business Risk Committee with every request for project approval, using the internal NIRA documentation whether they are acquisitions, new products, new systems or cultural change programmes.

Risk categories

Capital adequacy

The Group has an Internal Capital Adequacy Assessment Process (ICAAP) that helps to support and confirm the level of regulatory capital that is held by the Group for current and future activities. The impact on the firm's regulatory capital is considered when deciding on any major business change or acquisition. Scenario analysis is used as a tool to help forecast and plan for any potential capital changes.

Pillar 1 Capital adequacy is monitored daily by management. The Group's capital resources are reported to the Board on a monthly basis. The finance department also provides details of the Pillar 1 and 2 components of regulatory requirements in its reports to the Chief Executive Officer; any major variations being highlighted.

The Group observed the FCA's regulatory requirements throughout the year to 31 March 2016.

Credit Risk

The Group's credit risk is attributable to its trading and non-trading book receivables and its available-for-sale investments. The risk on receivables is that a customer or counterparty will be unable to pay amounts in full when due. Significant changes in the economy or a particular sector could result in losses that are different from those that the group has provided for at the balance sheet date. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The risk on available for sale investments is there may be some volatility in the price of the investment, meaning when the investment is sold its value may differ significantly from the fair value of the investment as at the balance sheet date.

The board is responsible for oversight of the Group's credit risk. The Group accepts a limited exposure to credit risk, but aims to mitigate and minimise the risk through various methods. For instance, the credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group uses the 'standardised' approach under the Pillar 1 requirements of the EU Directive.

The Group's risk weighted Credit risk capital requirement was £1,273,000, at 31 March 2016.

Further information about the Group's credit risk management policies can be found in Note 24 of the Annual Report for the Year ended 31 March 2016.

Market Risk

Market risk is the risk that changes in market prices, including foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

WCSB acts as an agency stockbroker primarily within the UK; all trades are matched in the market.

In addition, the group manages a relatively small principal book under the overall direction of the Group Managing Director. The Risk management Committee sets the total permitted maximum value of open positions. The portfolio is actively managed on a daily basis with investments being primarily in equities.

Hedging transactions in structured investments are also carried out during the marketing period to protect margins across the relatively short period between launch date and settlement of the products being marketed.

The group also monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures, if any, are managed through the use of spot contracts so as to reduce any currency exposure to a minimal amount.

Using the rules as laid down under Pillar 1, the Position risk requirement ("PRR") arising from the limited principal activities above, was determined to be £473,000 as at the 31 March 2016.

The Foreign Exchange PRR is determined by analysing the net open position in each currency. At the 31 March 2016 this approach led to a Foreign Exchange PRR of £24,000.

Adding these two PRRs together, gives a total Market risk capital requirement of £497,000.

Operational Risk
Operational risk is the risk of loss resulting from inadequate or failed Internal processes whether due to people and systems or from external events.

Operational, administrative, business, external, facilities, insurance, financial, technical, legal, reputational and conduct risks are actively monitored by the Risk Management Committee, made up of the Chief Executive, Business Risk Director and Head of Group Compliance, which works with the heads of business units and divisional management to identify and measure the different risks to which the business and support areas are exposed.

Active steps are taken to eliminate, mitigate or control risks wherever practicable. As a fully listed plc on the London Stock Exchange, the group has been adhering to the rigorous corporate governance disciplines recommended by Cadbury, Higgs, Hempel, Turnbull and the Combined Code for several years.

In addition, the Group operates under a system of Internal Financial Controls which has been developed and refined to meet its current and future needs. These include but are not limited to:

- the organisational structure and the delegation of authorities to Operational Management;
- procedures for the review and authorisation of capital investments;
- budgets and forecasts which are reviewed by the Board;
- the reporting and review of Financial results and other operating information;
- Accounting and Financial reporting policies to ensure the consistency, integrity and accuracy of the Group's Accounting records and
- Financial and Operating controls and procedures which are in place throughout the organisation and monitored through various means including routine and special reviews by Internal Audit staff.

The Operational risk capital requirement is assessed under Pillar 1 using the 'basic indicator approach'. Based on average net income over the last three years the operational risk capital requirement was determined to be £2,101,000.

Other: Liquidity Risk
Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Historically, sufficient underlying cash has been prevalent in the business for many years as the Group is highly cash-generative. The risk of unexpected large cash outflows could arise where large amounts are being settled daily of which only a fraction forms the commission earned by the company. This could be due to clients settling late or bad deliveries to the market or CREST, also resulting in a payment delay from the market side.

The Group's policy with regard to liquidity risk is to carefully monitor balance sheet structure and borrowing limits, including:

- monitoring of cash positions on a daily basis;
- exercising strict control over the timely settlement of trade debtors; and
- exercising strict control over the timely settlement of market debtors and creditors

The Group holds its cash and cash equivalents spread across a number of highly rated financial institutions. All cash and cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash without penalty.