

Moore Europe Capital Management, LLP

Report and financial statements

For the year ended 31 December 2018



Managing Member

MECM, Limited

Designated Members

Moore Europe Capital Development, Limited
Louis Bacon

Secretary

Hackwood Secretaries Ltd

Auditors

Ernst & Young LLP
25 Churchill Place
London E14 5EY

Bankers

Barclays Bank PLC
54 Lombard Street
London
EC3P 3AH

Registered Office

One Silk Street
London
EC2Y 8HQ

Registered No. OC322533

Members' report

The Members present their report and financial statements of Moore Europe Capital Management, LLP ("the LLP"), a limited liability partnership, for the year ended 31 December 2018.

Results

As shown in the LLP's statement of comprehensive income on page 8, the LLP's turnover for 2018 was £126.1m (2017: £61.8m). Revenue is calculated as a variable percentage of the management and incentive fees earned by Moore Capital Management, LP, which is a subsidiary of Moore Capital Holdings, LLC, the ultimate controlling party (see note 10). The LLP's profit for the year was £10.9m (2017: loss of £9.7m).

The statement of financial position on page 11 shows that the LLP's net assets have increased from the prior year to £34.2m (2017: £33.8m).

Principal Activities

The principal activity of Moore Europe Capital Management, LLP is the provision of investment management services. The LLP is authorised and regulated by the Financial Conduct Authority.

Principal Risks and Uncertainties

The LLP's ultimate parent company, which is the LLP's sole customer, derives the majority of its turnover from investment management and performance fees. The principal risk to the LLP in the future is therefore related to fluctuations in the performance of the funds managed by the ultimate parent company.

On 29 March 2017, the British government invoked Article 50 and began a two-year countdown to the United Kingdom withdrawing from the European Union. Negotiations continue, but much uncertainty remains and there are a range of possible outcomes and timeframes for many aspects of the UK's exit. The LLP is well positioned to manage the challenges that may arise as a result of Brexit.

Future developments

The Members do not anticipate any significant change in the business of the LLP for the foreseeable future.

Policy for Members' drawings, subscriptions and repayment of Members' capital

Policies for Members' drawings, subscriptions and repayment of Members' capital are governed by the Limited Liability Partnership Agreement dated 1st May 2014. In accordance with the Partnership Agreement, each Member of the Partnership is required to make a capital contribution to the Partnership. Capital is repayable to the Members on ceasing to be a Member of the Partnership (or on winding up).

Members are entitled to drawings from the Partnership at the discretion of the Members in anticipation of the allocation of future profits. If drawings are made in excess of allocated profits, the overdrawn balance shall be treated as an interest free loan from the Partnership.

Members' profit allocation

Any profits are shared among the Members at the discretion of the Managing Member, in accordance with the Limited Liability Partnership Agreement dated 1st May 2014.

Registered No. OC322533

Members' report

Going Concern

The financial position of the LLP and its liquidity are reflected in the statement of financial position.

The LLP is expected to continue to generate positive cash flows from the revenue earned from Moore Capital Management, LP.

The members, having assessed the responses of the directors of Moore Capital Holdings, LLC to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Moore Capital Holdings, LLC and its subsidiaries to continue as a going concern and to meet their expectations under the agreement with the LLP. Thus the Members have adopted the going concern basis of accounting in preparing the annual financial statements.

Members

The following were Members of the LLP during the year and up to the date of this report:

MECM, Limited (Managing Member)

Moore Europe Capital Development, Limited (Designated Member)

Louis Bacon (Designated Member)


Disclosure of information to the auditors

So far as the Designated Members are aware, there is no relevant audit information of which the LLP's auditors are unaware. The Designated Members have taken all steps that they ought to have taken as Designated Members in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Reappointment of auditors

The auditor, Ernst & Young LLP, has indicated willingness to continue in office. The Designated Members will propose a motion re-appointing the auditors at a meeting of the Members.

On behalf of the Members



SCOTT DINNELL

On behalf of MECM, Ltd, Managing Member

Date: 23 April 2019

Statement of Members' responsibilities

The Designated Members are responsible for preparing the Members' report and the financial statements in accordance with applicable law and regulations.

Legislation applicable to limited liability partnerships (Companies Act 2006 as modified by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008) requires the Designated Members to prepare financial statements for each financial year. Under that law the Designated Members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland' and applicable law. Under this legislation the Designated Members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that year. In preparing those financial statements, the Designated Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 LLP will continue in business.

The Designated Members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006 as modified by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the Members of Moore Europe Capital Management, LLP

Opinion

We have audited the financial statements of Moore Europe Capital Management, LLP (the 'LLP') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Reconciliation of Members' Interests, the Statement of Financial Position and the related notes 1 to 10, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the LLP's affairs as at 31 December 2018 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with FRS 102; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

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 below. We are independent of the LLP in accordance with the ethical requirements in the UK that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, 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.

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 members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the LLP'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.

Other information

The other information comprises the information included in the members' report set out in pages 2 and 3, other than the financial statements and our auditor's report thereon. The members are responsible for the other information.

Independent auditors' report

to the Members of Moore Europe Capital Management, LLP

Our opinion on the financial statements does not cover the other information and 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 the 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 in relation to which the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- ▶ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the financial statements are not in agreement with the accounting records and returns; or
- ▶ we have not received all the information and explanations we require for our audit.

Responsibilities of members

As explained more fully in the Statement of Members' responsibilities set out on page 4, the members 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 members 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 members are responsible for assessing the LLP'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 members either intend to liquidate the LLP 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.

Independent auditors' report

to the Members of Moore Europe Capital Management, LLP

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to Limited Liability Partnerships. Our audit work has been undertaken so that we might state to the 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 LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Irene Psalti (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

23 April 2019

Statement of comprehensive income

for the year ended 31 December 2018

| | <i>Notes</i> | <i>2018</i> £ | <i>2017</i> £ |
|--|--------------|-------------------|--------------------|
| Turnover | 2,8 | 126,135,754 | 61,816,329 |
| Administrative expenses | 8 | (115,394,336) | (71,553,925) |
| Operating profit /(loss) | 3 | 10,741,418 | (9,737,596) |
| Interest receivable and similar income | 4 | 125,470 | 16,535 |
| Finance cost | 5 | – | (15,483) |
| Profit/(Loss) for the financial year available for discretionary division among Members | | 10,866,888 | (9,736,544) |

During the year the LLP incurred no other comprehensive income and accordingly, the profit for the financial year is equivalent to the total comprehensive profit for the year.

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The notes on pages 12 to 16 form an integral part of these financial statements.

Reconciliation of Members' interests

for the year ended 31 December 2018

| | Note | Members' capital £ | Other reserves £ | Total Members' capital interests £ | Loans and other debts due to Members £ | Members' total interests £ |
|--|------|-----------------------|---------------------|---------------------------------------|---|-------------------------------|
| At 1 January 2018 | | 92,000,000 | (9,736,544) | 82,263,456 | (48,418,987) | 33,844,469 |
| Capital treated as a liability repaid | | - | - | - | (60,000) | (60,000) |
| Capital treated as a liability written off | | - | - | - | (10,000) | (10,000) |
| Members' capital introduced | | 30,000,000 | - | 30,000,000 | - | 30,000,000 |
| Profit for the year available for discretionary division among members | 7 | - | 10,866,888 | 10,866,888 | - | 10,866,888 |
| Members' interests after profit for the year | | 122,000,000 | 1,130,344 | 123,130,344 | (48,488,987) | 74,641,357 |
| Allocated losses | | - | 54,758,917 | 54,758,917 | (54,758,917) | - |
| Allocated profits | | - | (55,889,261) | (55,889,261) | 55,889,261 | - |
| Amounts owed to Members written off | | - | - | - | (16,785) | (16,785) |
| Expenses reimbursable to Members | 8 | - | - | - | 115,899,947 | 115,899,947 |
| Drawings and distributions | | - | - | - | (156,363,309) | (156,363,309) |
| At 31 December 2018 | | 122,000,000 | - | 122,000,000 | (87,838,790) | 34,161,210 |
| Amounts due to Members | | | | | 1,115,000 | |
| Amounts due from Members | | | | | (88,953,790) | |
| | | | | | (87,838,790) | |

Amounts due to Members are not subordinated. Capital treated as a liability is repayable to partners when they resign from the partnership. Capital and amounts owed to Members that was written off during the year represent amounts owed to Moore Europe Capital Development, Ltd, which is being liquidated.

Profits were allocated to leaving Members such that their total profit allocations match total advances received. Losses created as a result of the profit allocation were then allocated to the remaining Members.

The notes on pages 12 to 16 form an integral part of these financial statements.

Reconciliation of Members' interests

for the year ended 31 December 2017

| | Note | Members' capital £ | Other reserves £ | Total Members' capital interests £ | Loans and other debts due to Members £ | Members' total interests £ |
|--|------|-----------------------|---------------------|---------------------------------------|---|-------------------------------|
| At 1 January 2017 | | 22,000,000 | - | 22,000,000 | 5,534,921 | 27,534,921 |
| Capital treated as a liability introduced | | - | - | - | 925,000 | 925,000 |
| Members' capital introduced | | 70,000,000 | - | 70,000,000 | - | 70,000,000 |
| Loss for the year available for discretionary division among Members | 7 | - | (9,736,544) | (9,736,544) | - | (9,736,544) |
| Members' interests after loss for the year | | 92,000,000 | (9,736,544) | 82,263,456 | 6,459,921 | 88,723,377 |
| Expenses reimbursable to Members | 8 | - | - | - | 70,722,579 | 70,722,579 |
| Drawings and distributions | | - | - | - | (125,601,487) | (125,601,487) |
| At 31 December 2017 | | 92,000,000 | (9,736,544) | 82,263,456 | (48,418,987) | 33,844,469 |
| Amounts due to Members | | | | | 1,207,405 | |
| Amounts due from Members | | | | | (49,626,392) | |
| | | | | | (48,418,987) | |

Amounts due to Members are not subordinated. Capital treated as a liability is repayable to partners when they resign from the partnership.

The notes on pages 12 to 16 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2018

| | <i>Notes</i> | <i>2018</i> £ | <i>2017</i> £ |
|---|--------------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 6 | 34,161,210 | 33,844,469 |
| | | <u>34,161,210</u> | <u>33,844,469</u> |
| Net assets attributable to Members | | <u>34,161,210</u> | <u>33,844,469</u> |
| Represented by: | | | |
| Loans and other debts due to Members within one year | | | |
| Members' capital classified as a liability under FRS 102 section 22 | | 1,115,000 | 1,185,000 |
| Other reserves | | – | (9,736,544) |
| Loans and other debts due from Members | | (88,953,790) | (49,603,987) |
| Members' capital interests | | 122,000,000 | 92,000,000 |
| | | <u>34,161,210</u> | <u>33,844,469</u> |
| Total Members' interests | | <u>34,161,210</u> | <u>33,844,469</u> |

These financial statements were approved and authorised for issue by the Members on 23 April 2019 and were signed on their behalf by:



SCOTT DINNELL

The notes on pages 12 to 16 form part of these financial statements.

Notes to the financial statements

as at 31 December 2018

1. Accounting policies

General Information

Moore Europe Capital Management, LLP is a limited liability partnership incorporated and domiciled in England and Wales. The registered office of the LLP is 1 Silk St, London, EC2Y 8HQ.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention, in compliance with FRS 102, the Companies Act 2006 as applied by LLPs and the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' issued in January 2017 (applicable for accounting periods commencing on or after 1 January 2016).

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the LLP's accounting policies. The members have not been required to exercise a significant degree of judgement in preparing the financial statements and are confident that no significant estimates have been used that would have a significant impact on the results or financial position for the year.

Statement of cash flows

The LLP, as a qualifying entity, has taken advantage of the exemption in section 7 of FRS 102 from the requirement to prepare a statement of cash flows. The statement of cash flows that includes the LLP can be found in the financial statements of MECM, Ltd, which are publicly available.

Turnover

Revenue is recognised on an accruals basis net of VAT. It is recognised for services provided and calculated as a percentage of Moore Capital Management, LP's revenue.

Expenses

Expenses have been recognised on an accrual basis within the statement of comprehensive income.

Interest

Interest is accounted for on the accruals basis.

Foreign currencies

The functional and presentational currency of the LLP is pound sterling (GBP).

Transactions in foreign currencies are recorded at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at the year end. All currency differences are taken to the statement of comprehensive income.

Taxation

No provision has been made for taxation in the financial statements. Each Member is exclusively liable for any tax liabilities arising out of their interest in the LLP, which will be assessed on the individual Members.

Cash at bank

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Notes to the financial statements

as at 31 December 2018

1. Accounting policies (continued)

Members' capital and profit allocation

Capital contributed by the Managing Member is recognised as Members' capital. Capital contributed by other Members is recognised as a liability in the financial statements of the Partnership on the basis that, in accordance with the Partnership Agreement, capital is repayable to Members when they leave.

The LLP has no fixed obligation to allocate profits to Members. All remuneration is allocated on a discretionary basis. Accordingly, Members' remuneration is shown as a deduction from Members' interests. Any cash drawings withdrawn from the LLP by Members in advance of a discretionary profit allocation are recognised as a loan due from Members. Where profit allocations exceed drawings made by Members, this is represented as a loan amount due to Members of the LLP.

Reserves

Members' capital represents those amounts introduced by the Members of the LLP to be used in business operations. All amounts credited to each Member's capital account shall be immediately and fully available to the LLP for unrestricted use to cover risks and losses as and when they may occur. Future capital contributions and withdrawals are permitted as outlined by the partnership agreement.

Other reserves represent the unallocated profits or losses from operations of the year.

2. Turnover

Turnover arises from services performed in the United Kingdom and is attributable to advisory fees from Moore Capital Management, LP, incorporated in the US (see note 8), exclusive of Value Added Tax. Turnover is calculated based on the methodology stated in the Services Agreement between the LLP and Moore Capital Management, LP dated 30 June 2017.

3. Operating profit/(loss)

The operating profit/(loss) amounting to £10,741,418 (2017: loss of £9,737,596) is stated after:

| | <i>Year to</i> <i>31-Dec</i> <i>2018</i> <i>£</i> | <i>Year to</i> <i>31-Dec</i> <i>2017</i> <i>£</i> |
|----------------------------------|--|--|
| Foreign exchange gains /(losses) | 479,872 | (830,023) |
| | <u> </u> | <u> </u> |

Auditors' remuneration for the year of £15,000 (2017: £15,000), is payable by MECM, Ltd.

Notes to the financial statements

as at 31 December 2018

4. Interest receivable and similar income

| | <i>Year to 31-Dec 2018 £</i> | <i>Year to 31-Dec 2017 £</i> |
|------------------------|--|--|
| Bank interest received | 125,470 | 16,535 |

5. Finance costs

| | <i>Year to 31-Dec 2018 £</i> | <i>Year to 31-Dec 2017 £</i> |
|---|--|--|
| Interest payable on intercompany balances | – | 15,483 |

6. Cash and cash equivalents

| | <i>31-Dec 2018 £</i> | <i>31-Dec 2017 £</i> |
|------------------|------------------------------|------------------------------|
| Cash at bank | 6,720,519 | 3,329,246 |
| Cash equivalents | 27,440,691 | 30,515,223 |
| | <u>34,161,210</u> | <u>33,844,469</u> |

Notes to the financial statements

as at 31 December 2018

7. Members' remuneration

| | <i>Year to 31-Dec 2018 £</i> | <i>Year to 31-Dec 2017 £</i> |
|---|---|---|
| Profit/(loss) for the financial year available for discretionary division among Members | 10,866,888 | (9,736,544) |
| Amount allocated in relation to the Member with the largest entitlement to profit | 22,147,393 | - |
| | <i>Year to 31-Dec 2018 No</i> | <i>Year to 31-Dec 2017 No</i> |
| The average monthly number of Members in the year was | 3 | 14 |

8. Related party transactions

During the year the LLP received income of £126,135,754 (2017: £61,816,329) from Moore Capital Management, LP, which is a subsidiary of Moore Capital Holdings, LLC, the ultimate controlling party (see note 10). The LLP paid interest to Moore Capital Management, LP of £nil (2017: £15,483).

At 31 December 2018 nothing was payable to Moore Capital Management, LP (2017: nil).

During the year the LLP reimbursed expenses of the Managing Member of £115,899,947 (2017: £70,722,579), which forms part of the total administrative expenses amounting to £115,394,336 (2017: £71,553,925).

The Members are the only key management personnel of the Partnership and the aggregate of transactions with Members in the capacity as Members is disclosed in the Reconciliation of Members' interests on page 9. Amounts due to and from Members are also disclosed on page 9.

| | <i>31-Dec 2018 £</i> | <i>31-Dec 2017 £</i> |
|---|------------------------------|------------------------------|
| Amounts due to other Members in respect of undrawn profit allocations | - | 22,405 |

Notes to the financial statements

as at 31 December 2018

9. Post Balance Sheet Event

After the year end, the LLP repaid £485,000 of the capital treated as a liability, which represented all of the capital existing at year end that had been previously been paid to the LLP by Members who have left the partnership.

10. Ultimate parent undertaking and controlling party

The LLP is controlled by its Managing Member, MECM, Limited, which is ultimately controlled by Moore Capital Holdings, LLC, a company incorporated in the US. Financial statements for MECM, Ltd are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

Unaudited Appendix

Moore Europe Capital Management, LLP

Pillar 3 Disclosure

31 December 2018

Unaudited Appendix

Overview

This disclosure document has been prepared in accordance with the requirements of Pillar 3, which is the implementation by the Financial Conduct Authority of the European Union Capital Requirements Directive (“CRD”). Pillar 3 is designed to promote market discipline by providing market participants with information on firms’ risk exposures and risk management processes.

The figures in this document are as at 31 December 2018, which is the company’s year end. Future disclosures will be issued on an annual basis, and included in the annual accounts.

MECM, Ltd is an EEA institution, and is the parent company of Moore Europe Capital Management, LLP, which is regulated by the FCA. CRD applies both to Moore Europe Capital Management, LLP (“Solo”) and to the consolidated position of the two companies (“the Group”). Therefore regulatory capital ratios are required to be maintained on both a Solo and Group basis.

Risk Management Objectives and Policies

Senior Management decides the Group’s appetite or tolerance for risk. In addition Senior Management ensures that the Group has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed.

Unaudited Appendix

Capital Resources

The table below summarises the composition of the regulatory capital as at 31 December 2018, at which point MECM, Ltd and the Group's individual entities complied with all the externally imposed capital requirements to which they are subject.

| Notes | SOLO 31 December 2018 £000s | GROUP 31 December 2018 £000s |
|--|-----------------------------------|------------------------------------|
| Core Tier 1 capital | | |
| Called up ordinary share capital | 122,000 | 80,650 |
| Retained earnings | - | (9,443) |
| Tier 1 capital after deductions | 122,000 | 71,207 |
| Tier 2 capital after deductions | - | - |
| Total regulatory capital | 122,000 | 71,207 |

Capital Adequacy

The Group's policy is always to be well capitalised on a Solo and Group basis. The Group has adopted the standardised approach to both credit and operational risk since 1 January 2008 in order to calculate the Pillar 1 minimum capital requirement.

The Group reviews cash held on a daily basis and forecasts on a weekly basis so as to maintain enough cash always to meet its Pillar 1 regulatory requirements.

The Group undertakes the Internal Capital Adequacy Assessment Process ("ICAAP"), which is the internal assessment of its capital needs. The outcome of the ICAAP is documented on a Solo and Group basis.

The ICAAP document forecasts 3 years of performance and includes stressed scenarios to satisfy regulatory requirements. Capital has been deemed able to mitigate identified risks.

The ICAAP document is presented to the Board for challenge and approval. The document is reviewed twice a year (or more frequently if considered necessary) and updated appropriately.

Unaudited Appendix

The Group's Credit Risk Exposures and its Pillar 1 capital requirement are set out in the tables below. The Pillar 1 requirement in respect of credit risk is based on 8% of the risk weighted exposure amounts for each of the following standardised exposure classes.

| | | SOLO | GROUP |
|--|--------------------|-------------------------|-------------------------|
| | | 31 December 2018 | 31 December 2018 |
| | | £000s | £000s |
| Exposure | | | |
| Central governments | | - | 760 |
| Institutions | | 34,161 | 77,251 |
| Corporates | | 83,954 | 1,944 |
| Other | | 5,000 | 11,234 |
| TOTAL Exposure | | 123,115 | 91,189 |
| Risk Weighted Exposure | Risk Weight | | |
| Central governments | 0% | - | - |
| Institutions | 20% | 6,832 | 15,450 |
| Corporates | 100% | 83,954 | 1,944 |
| Other | 100% | 5,000 | 11,234 |
| TOTAL Risk Weighted Exposure | | 95,786 | 28,628 |
| Credit Risk Requirement at 8% of Risk Weighted Exposure | | 7,663 | 2,290 |
| Operational risk | | - | - |
| Market risk – non trading book | | | |
| Foreign currency PRR* | | 459 | 519 |
| Fixed Overhead Requirement | | 7,731 | 7,731 |
| Total Pillar 1 capital requirement | | 8,122 | 7,731 |

* Position Risk Requirement

The Group has three primary exposures to Credit Risk. These are cash balances held at UK institutions, advance drawings paid to Members of the LLP, and balances owed by its parent company in relation to fees. It holds all cash balances with institutions assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is considered past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset.