sharepIc:

Pillar 3 Disclosures

28 February 2011

Based on Financial Data as at 31 December 2010

Oxford House Oxford Road Aylesbury Buckinghamshire HP21 8SZ
Phone 01296 41 41 41 Visit www.shareplc.com

Registered in England number 2966283

Contents

sharepl c:

1.0 Introduction

Pillar 3 Discolsures

The Capital Requirements Directive (CRD) created a regulatory capital framework across Europe based on the provisions of the Basel II Capital Accord. This was adopted in the UK by the Financial Services Authority (FSA) within the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The framework consists of three 'pillars':

- **Pillar 1** — This sets out the minimum capital requirements firms will be required to hold for the purposes of covering credit, market and operational risk. The Share plc Group is subject to the Fixed Overhead Requirement for the calculation of its Pillar 1 Capital Resources Requirement.
- **Pillar 2** — This requires firms and supervisors (the FSA) to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1, and they must take action accordingly. For this purpose the Share plc Group has an Internal Capital Adequacy Assessment Process (ICAAP) which has been the subject of supervisory review.
- **Pillar 3** — This requires certain public disclosures to be made regarding aspects of the risks a firm faces, its risk management processes and its capital resources. This publication must be made at least annually.

Share plc Group adoption of Pillar 3

Share plc is the ultimate parent company of a Group which contains The Share Centre Limited and Sharefunds Limited, both of which are FSA regulated entities. The Group's principal trading business is The Share Centre Limited which provides self-select investment services to retail investors.

This document is intended to meet the obligations of the Share plc Group with regard to Pillar 3 disclosures as noted above.

The disclosures are not subject to external verification, except to the extent that the same data appears in the Group's financial statements. Additional information regarding the Group's risks and risk management not required under Pillar 3 can be found in the Group's financial statements.

The information in these disclosures is based on the financial position of the Group as at 31 December 2010, being its last financial year end.

The Board of the Group approved these disclosures on 28 February 2011. The Board has adopted a policy regarding Pillar 3 such that these disclosures will be made annually at the time of publication of the Group's financial results, subject to ongoing monitoring and any requirement to amend the information contained herein arising from a material change in circumstances of the Group.

All companies included in the Group for statutory consolidated accounting purposes are included in the capital calculations and disclosures in this document. The Group has no involvement in any special purpose vehicles.

2.0 Risk Appetite

The Group's risk appetite is determined by the Board. The Group considers itself to be risk averse with a low risk appetite. This applies to all activities conducted by the Group. This is evidenced by the Group's strategy and business model including:

- stated objective to focus on recurring revenue streams

- a diversified retail customer base with low concentration risk

- no principal positions being deliberately taken by the Group other than its strategic investments in the London Stock Exchange plc, Euroclear plc and WAY Group Limited

- requirement for customers to hold the necessary stock or cash on their account prior to executing a trade. Customers can trade on up to £25,000 of uncleared funds but even in these circumstances some evidence of the monies being paid to The Share Centre is required (e.g. a bank authorisation code)

- where possible, no outsourcing of business critical operations

- avoidance of service offerings in complex financial products such as Spread Betting

- modest dividend payment policy with the majority of profits retained by the Group

- a cautious approach to acquisitions

The low risk appetite is embedded in the culture of the Group through the various management structures which exist including those specifically relating to the management of risk as identified at 3.0 below.

3.0 Risk management objectives and processes

The over-riding objective of the Group's risk management processes is the identification of risks and strategies to deal with those risks such that the overall risk to which the Group is exposed is in line with the risk appetite set by the Board.

The identification, understanding and mitigation of risks are core to the decision making processes within the Group. The attitude to risks the Group faces and strategies to mitigate those risks are then cascaded through the organization by means of the business planning process, regular management meetings and staff communication.

The Group's operational risk monitoring system consists of a combination of the 'bottom up' monitoring work, evaluation of departmental controls and scoring undertaken by the Compliance and Legal Services Team (predominantly driven via the Compliance Monitoring Programme), combined with the 'top down' approach of the Share plc Risk Sub-Committee (which utilises the Risk Register as a template for regularly examining and measuring each identified element of risk). The Risk Sub-Committee is a sub-committee of the Share plc Audit and Risk Committee.

The work undertaken by the Compliance and Legal Services Team is reported to The Share Centre and Share plc Boards quarterly, with a formal detailed report.

The Risk Sub-Committee meets at least six-monthly and the minutes of those meetings and the corresponding Risk Register are considered by the subsequent Share Centre and Share plc Board meetings, as well as the Share plc Audit and Risk Committee. The Compliance and Legal Services Director chairs the Risk Sub-Committee and also directs the work of the Compliance Team. This allows him to escalate issues arising from the Compliance Team's work or delegate downwards areas of focus for the Compliance Team to consider arising from the Risk Sub-Committee's discussions.

The Money Laundering Reporting Officer and Company Secretary, who reports to the Compliance and Legal Services Director, also undertakes six-monthly risk analysis as part of the anti-money laundering and anti-fraud risk management. This output is more specific, but usefully complements the risk management output, and is also reviewed at Board level.

The Group considers that reviewing risks in this way provides the most comprehensive review and outcome, including the risks arising from Sharefunds and Sharemark. This is based on the interdependencies of the various business activities within the Group and the fact that the different business units use common systems, premises and support staff.

The Internal Capital Adequacy Assessment Process (ICAAP) and its associated ICAAP document is a core element in the documentation and consideration of risks within the Group and the impacts those risks have on capital adequacy. The ICAAP is reviewed and updated at least every six months.

sharepIc:

4.0 Risk categories and exposures

The Risk Register used by the Risk Sub-Committee, as noted above, details risks faced across the business and applies a scoring system to those risks taking into account both the probability of the risk events identified materialising and the impact those events would have on the business.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. Operational risk can never be eliminated but the Group aims to have in place appropriate controls and mitigations such that the probability and impact of such operational events are minimised.

The principal operational risks considered by the Group include the risks associated with events which may impact business continuity, and risks relating to outsourcing, IT equipment and interfaces. In addition, the Group considers aspects of the risks associated with potential fraud events, along with risks related to data security.

The Group seeks to mitigate operational risks through a strong control environment, segregation of duties and the use of insurance. This control environment includes regular departmental reviews undertaken by the Compliance and Legal Services Team as noted above. The Group has, and regularly tests, a business continuity plan which includes the use of alternative premises and back-up systems.

Credit risk

This represents the risk of loss through default by a counterparty. The Group has a diverse retail customer base and has limits in place on the extent to which customers can trade using uncleared funds. The principal risk in this area therefore relates to failure of a market counterparty or other institution (for example, a bank) used by the Group.

In respect of deposit institutions (banks) used by the Group for holding client monies, the Group undertakes detailed due diligence on the institutions used, spreads its balances across a number of institutions, and maintains close relationships with those institutions. In addition, two of the four principal institutions currently used for holding client monies are now majority owned by HM Government.

Market risk

This is the risk that comes from fluctuations in values of, or income from, assets or in interest or exchange rates.

Exposure to market risk in respect of market values arises primarily in the relationship between market values and some of the fee structures used by the Group. A change in market values has a direct impact on some fees charged and therefore on the Group’s revenues. In addition, by impacting the value of our customers’ investments changes in market values can have an indirect impact on the level of dealing commissions.

The Group does not take any principal positions, other than the strategic investments it has in London Stock Exchange plc, Euroclear plc and WAY Group Limited.

Fluctuations in interest rates have a direct impact on the Group’s revenues by affecting the level of income earned on client monies held. Changes in interest rates also impact the income derived from the Group’s own cash balances.

The impact of downward fluctuations in interest rates have, to date, been mitigated by the use of an interest rate floor policy. This policy expired on 1 November 2010 and this will therefore have a material impact on revenues in 2011 and into the future so long as interest rates remain at their historically low levels. Steps have been taken to mitigate some of this impact. The stress testing undertaken as part of the ICAAP process takes the lower interest income as its base case.

The impact of market movements and future changes in interest rates are dealt with in the scenario and stress testing undertaken by the Group in determining its Pillar 2 capital requirement although there is clearly limited downside risk from base rates being at 0.5%.

Other risks

The Group mitigates against any liquidity risk by maintaining the majority of its shareholder funds in cash. Client monies are kept in a mixture of current accounts, notice accounts and term deposits to ensure liquidity and if necessary the term deposits could be broken or borrowed against in order to meet any cash requirements.

There are also a number of other risks the Board does not feel that the Group has exposure to. These include, pension risk, residual risk, and securitisation risk.

Pillar 2 requirement

The assessment and quantification of all the risks identified under the headings discussed above, gives rise to an assessment within the ICAAP process of the level of capital required to be held to cover those risks. This is the Group's Pillar 2 capital requirement.

As noted above the Group has opted for the approach which allows a comparison between the Pillar 1 calculated capital requirement and the Pillar 2 ICAAP assessment of the capital requirement. The Pillar 2 calculation gives a capital requirement which is in line with or below the level calculated under Pillar 1, therefore the Pillar 1 requirement takes precedence and is the capital requirement for the Group. In section 6 below, this is shown against the capital resources of the Group to demonstrate the Group's capital adequacy.

5.0 Capital resources

The Group's capital can be divided into Tier 1 and Tier 2 capital. Tier 1 capital comprises the issued share capital of the parent company, some of which may have been issued at a premium, and the retained earnings of the Group as a whole. Disclosure is also made in respect of The Share Centre Limited as required under BIPRU 11.4.5 R as a significant subsidiary of Share plc.

Total Tier 1 capital at 31 December 2010 was:

	Share plc Group £'000s	The Share Centre Limited £'000s
Share Capital	823	229
Share Premium Account	1098	0
Retained Earnings and other reserves	14,233	6,910
Total Tier 1 Capital before deductions	16,155	7,139
Deductions from Tier 1 Capital		
Investments in own shares	686	
Intangible assets	126	53
Total deductions	812	
Total Tier 1 Capital	15,343	7,086

Tier 2 capital comprises the Group's revaluation reserves. These arise on the revaluation of available-for-sale financial assets.

Total Tier 2 capital at 31 December 2010 was:

	Share plc Group £'000s	The Share Centre Limited £'000s
Revaluation reserves	1,812	1,089
Lower tier 2 capital instruments		150
Total Tier 2 Capital	1,812	1,239

6.0 Capital adequacy

The Group operates an Internal Capital Adequacy Assessment Process (ICAAP) as required under Pillar 2. That process formalises the Group's risk appetite and risk management framework and integrates it with the Group's financial processes. As a result risks are discussed, identified and where necessary quantified. The ICAAP is reviewed and updated every six months as part of the Group's risk management processes noted in section 3 unless there are circumstances that warrant a more immediate update.

As part of the Group's ongoing financial processes and controls, the level of capital resources are monitored and operational ratios and other data reviewed regularly. This occurs at least monthly, in part as support for the Group's monthly reporting to the FSA.

The Group has adopted the approach of comparing the Capital Resources Requirement calculated in accordance with Pillar 1 (the Fixed Overhead Requirement) with the Capital Resources Requirement determined under Pillar 2 (i.e. by the ICAAP process). That ICAAP process identifies all material risks based on the Group's risk register and where appropriate quantifies the risk and the level of capital deemed appropriate to hold against that risk.

At present, the Pillar 2 requirement is less than the Pillar 1 requirement. As a result the Pillar 1 requirement remains the minimum level of capital resources the Group is required to hold. The current (2011) Pillar 1 requirement is £2,469,000 on a consolidated basis, and £2,678,000 for The Share Centre Limited on a standalone basis. When comparing to the value of capital resources as shown in Section 5 it is evident the Group, as well as The Share Centre Limited, currently maintains a significant surplus to this requirement.

The overall capital adequacy position can therefore be summarised, as at 31 December 2010, as follows, based on the capital resources at that date and the Pillar 1 requirement for 2011:

Entity	Capital resources* £'000s	Capital requirement £'000s	Surplus £'000s
Share plc Group	17,154	2,469	14,685
The Share Centre Limited	8,325	2,768	5,647

* Being Tier 1 plus Tier 2 capital, given no deductions, as in Section 5.