



NUMIS SECURITIES LTD

Pillar 3 Disclosures 2010

1 Overview

1.1 Introduction

The Capital Requirements Directive (CRD) is the framework for the implementation of the Basel II accord in the European Union. The CRD consists of three pillars:

- Pillar 1 sets out minimum capital requirements for credit, market and operational risk
- Pillar 2 in which firms and supervisors assess whether they should hold additional capital not covered in Pillar 1
- Pillar 3 requires firms to publish details about their risks, capital and risk management.

1.2 Basis of Disclosure

In the UK, the FSA has introduced Pillar 3 via BIPRU Chapter 11 in the FSA handbook. The disclosures in this document are not subject to audit but have been reviewed and approved by senior management.

1.3 Frequency of disclosures

Disclosures are required at least annually. Numis has an accounting reference date of 30 September and these disclosures are made as at 31st December 2010.

1.4 Scope

These disclosures are made for the UK regulated entity, Numis Securities Limited (Numis). Numis Securities Limited is a wholly owned subsidiary of Numis Corporation Plc (PLC).

2 Risk Management Governance

2.1 Introduction

Numis places great weight on the effective management of exposures to market, credit, liquidity and operational risk and our risk management policies are specifically designed to identify, monitor and manage such exposures to ensure that the operating activities of the firm are managed within the risk appetite set out by the PLC Board.

Risk exposures are monitored, controlled and overseen by separate but complimentary committees which consist of senior management from revenue generating areas, compliance and finance. Management oversight and segregation of duties are fundamental to the risk management framework.

Responsibility for the approval of all risk management policies and setting the overall risk appetite is held by the PLC Board, to which all risk management functions ultimately report. The PLC Board receives risk updates which detail Numis' exposure to market, credit, liquidity and operational risks across the entire business.

2.2 Audit and Risk Committee

The PLC Audit and Risk Committee, which meets four times a year, is responsible for the evaluation and maintenance of Numis' control framework and ensuring that policies are in place and operating effectively to identify, assess, monitor, and control risk throughout the organisation. The PLC Audit and Risk Committee receives risk updates summarising Numis' exposure to market, credit, liquidity and operational risks across the entire business. Controls and policies are reviewed and challenged to ensure their effectiveness and to reflect changes in requirements and best practice.

2.3 Risk Oversight Committee

The Risk Oversight Committee (ROC), which meets monthly, ensures that the material risks across the organisation are being managed within the risk appetite and control framework approved by the PLC Board and PLC Audit and Risk Committee. The ROC comprises *inter alia* the Chief Executive, Finance Director, Risk Manager, Head of Compliance and Risk, Corporate Finance Director of Operations, Head of IT and Operations and the Head of HR. The committee reviews the following as a minimum:

- The approval of monthly Risk Dashboard reporting prior to submission to the NSL and PLC Boards
- The mitigants and controls attaching to each of the material risks within the firms risk register
- The key risk indicators (KRI's) used to monitor the material risks
- The capital allocation methodology and resulting Pillar 2 assessment of capital requirement for each material risk
- Any major risk issues and the corrective action required
- Risk methodology and reporting changes

2.4 Financial Risk Committee

The Financial Risk Committee (FRC), which meets weekly, ensures that financial risks (market, credit, liquidity and operational risks) are being managed within the risk appetite and limits set out by the PLC Board and the PLC Audit and Risk Committee. The FRC comprises *inter alia* the Chief Executive, Finance Director, Risk Manager, Head of

Compliance and Risk, Head of Equities, Head of Trading and the Treasurer. The committee reviews the following as a minimum:

- Market risk exposures on equity, bond and derivative positions. These are measured against both position limits and Value-at-Risk (VaR) limits.
- Credit Risk exposures to trading and deposit-taking counterparties
- Liquidity risk on the firm's free cash and cash equivalents (e.g. Treasury bills)
- Foreign exchange risk on foreign currency denominated assets/liabilities
- Capital adequacy
- Financial risk methodology and reporting changes

2.5 Internal Audit

An outsourced Internal Audit function provides an independent assessment of the adequacy and satisfactory application of the control framework and reports directly to the PLC Audit and Risk Committee.

3 Capital Resources and Requirements

Numis has an Internal Capital Adequacy Assessment Process (ICAAP), approved by the PLC Board, which documents management's assessment of the risk profile of the operational business and the resulting capital requirements. This ensures that the risk profile is assessed against mitigants and controls in place and that sufficient capital is maintained to withstand the resulting residual risk. Numis calculates and reports its capital resources and requirements in accordance with the current FSA regulations. The following table summarises Numis' capital resources and capital requirements as at 31st December 2010 (all figures in GBP 000's).

Tier 1 capital is the core measure of an institution's financial strength. It is comprised of disclosed (audited) reserves and share capital. Numis has no elements within Tier 2 capital. Tier 3 capital is comprised of unaudited interim profits.

	GBP 000's
Tier 1 capital	86,843
Deductions from Tier 1 and Tier 2 Capital	(5,582)
Total Tier 1 capital plus Tier 2 capital after deductions	81,260
Tier 3 capital	491
Total capital after deductions	81,752
Market Risk Requirement	(5,584)
Credit Risk Requirement	(4,244)
Counterparty Risk Requirement	(32)
Operational Risk Requirement	(7,347)
Total Capital Requirement	(17,207)
Surplus Capital (Pillar 1)	64,545
Solvency Ratio (%)	475%

4 Risk Management Framework

Numis employs a risk management framework which takes account of all material risks across the business. A total of 78 underlying risks have been identified, all of which are categorised into one of nine generic risk types to facilitate reporting into the NSL and PLC Boards. The nine risk categories comprise governance risk, strategic risk, reputational risk, legal/regulatory risk, counterparty risk, market risk, liquidity/capital risk, operational risk and staff risk.

All 78 underlying risks have been scored on a residual basis which takes account of the financial impact and likelihood of the risk occurring. This residual risk scoring then translates through to a Pillar 2 capital figure for each of the risks. A risk register contains mitigant and control information for each of the risks together with appropriate Key Risk Indicators. A Risk Dashboard summary report is presented at all NSL and PLC Board meetings and PLC Audit and Risk Committee meetings. This dashboard reporting displays the overall risk status for each of the nine generic risk categories via a traffic light system as well as providing commentary and narrative on the more significant and/or material areas coinciding with the time of reports production.

5 Market Risk

5.1 Equity Risk

Numis is affected by equity risk through its holding of equity positions arising through the course of its market-making, trading and investment activities. Equity risk arises from movements in equity prices and volatilities.

5.1.1 Risk Methodologies

5.1.1.1 Value at Risk

The main metric used for the daily management and control of equity risk is Value at Risk (VAR). The methodology used is an historical simulation using a 256-day rolling window of historical data and taking the 3rd worst loss over this period. VAR is calculated for individual stocks and for higher aggregations from book level to portfolio level. VAR guideline thresholds are placed on individual stocks based on index and for various levels in the business hierarchy up to portfolio level. VAR exposures are reported at the end of each trading day at stock and aggregate level against guideline thresholds and limits and can also be run on an ad-hoc basis intra-day. Back testing of VAR against actual profit or loss, is performed daily and periodically reviewed to validate the VAR model.

VAR figures are reported daily to Financial Risk Committee and a summary is presented to the NSL and PLC Board as well as the PLC Audit and Risk Committee. As at 31st December 2010, the Equity VAR was £216k.

5.1.1.2 Historical Simulation stress test

This stress test uses a similar methodology to the VAR described in 5.1.1.1. The differences are the holding period (20 days instead of 1), the worst loss is taken instead of the third worst loss and the data window is static instead of rolling. The static window enables the use of unprecedented market volatility (which peaked in October 2008) going forward. The equity stress test based on this methodology as at 31st December 2010 was £3,830k.

5.2 Foreign Exchange Risk

Foreign exchange risk arises from exposure to movement in foreign exchange rates and the volatility of those rates. Numis' activities are predominantly denominated in Sterling but there are, from time-to-time, assets and liabilities denominated in foreign currencies.

5.2.1 Risk Methodologies

5.2.1.1 Value-at-Risk

The identical methodology to that used for equity risk described in 5.1.1.1 is employed to compute a daily Foreign Exchange Value at Risk (3rd worst loss, 256-day rolling data window). As at 31st December 2010, the Foreign Exchange Value-at-Risk was £78k.

5.2.1.2 Stress Test

The identical methodology to that used for equity risk described in 5.1.1.2 is employed to compute a foreign exchange stress test (worst loss, 20 day holding period, static 256-day data window). As at 31st December 2010, the Numis Foreign Exchange Stress test was £340k.

5.3 Position Risk Requirements under Pillar 1

Under BIPRU 7, Numis is exposed to both Equity PRR and Foreign Currency PRR. Under BIPRU 7.3 to 7.7 Numis calculates a capital requirement of 12% on listed equities (including derivatives). This constitutes the Equity PRR charge.

For foreign currency exposures Numis employs an 8% requirement on the greater of the net long and net short sterling equivalent position.

As at 31st December 2010, Numis had a total Equity PRR of £4,816k, a foreign exchange PRR of £713k and an interest rate PRR of £54k (total PRR of £5,584k).

6 Credit Risk

Credit risk is the potential loss Numis would incur if a counterparty fails to settle under its contractual obligations or a default of an institution with which we have cash deposits. In the ordinary course of business, credit risk is relatively limited because securities trading activity is settled on a delivery versus payment (DVP) basis through Crest. Unsettled trades are subject to a greater degree of credit risk, and this credit risk increases as the overdue period increases. Deposits are held with large UK based commercial clearing banks with credit ratings at or above AA- Fitch investment grade. Other sources of credit risk include non-trading receivable components of the firm's balance sheet including corporate finance receivables, loans, other non-trading receivables and prepayments and accrued income.

6.1 Exposure Reporting

Counterparty exposures are monitored both throughout the day on an hourly basis and at the end of day for formal reporting purposes. The exposures are measured against limits which are derived from counterparty categorisation (e.g. long-only fund, hedge fund, broker

etc.) and their perceived creditworthiness based on available market data. This reporting ranks the counterparties by exposure by sterling amount and lists the major stock contributors underlying the exposures. Limit breaches are highlighted daily for follow-up action and also discussed weekly by the Financial Risk Committee. All new counterparties go through a formal review process by Compliance before an account is opened. The creditworthiness of counterparties are reviewed on a regular basis and, if necessary, limits adjusted. In the case of non-trading exposures, procedures exist to highlight overdue receivables and provide for impairment where management consider it prudent to do so.

6.2 Stress Test

Numis employs a daily stress test in order to assess the amount the firm could lose if its counterparties were to default on their contractual obligations.

This is essentially the same methodology as the market risk stress test outlined in 5.1.1.2 since upon default, Numis would be left with undelivered stock which would be exposed to market risk. The worst loss over a 20-day holding period is taken based on a fixed year's worth of market data. The credit risk stress test based on this methodology as at 31st December 2010 was £1,342k.

6.3 Capital Resource Requirements under Pillar 1

6.3.1 Non-Trading exposures

Numis utilises the FSA capital requirements set out in BIPRU 3 (standardised credit risk). Essentially the credit risk charge is 8% of the financial obligations due to Numis multiplied by a further factor by counterparty type (0% Government, 20% banks, 100% others).

As at 31st December 2010, Numis' Credit Risk capital requirement was £4,244k. The following table shows the breakdown of this figure (figures in GBP 000's).

Asset	Value	Charge	Risk Weight	Requirement
Cash and cash equivalents	30,655	8%	20%	490
Pre-payments and receivables @100%	355	8%	100%	28
Pre-payments and receivables @20%	3,347	8%	20%	54
Loans and intercompany balances	32,587	8%	100%	2,607
Other assets	11,811	8%	100%	1,065
Total	101,198			4,244

6.3.2 Trading exposures

The Counterparty Risk CRR settlement risk component (BIPRU 13, for derivatives and settlement transactions) is derived from the exposure on unsettled trades multiplied by a factor depending on how many days overdue a payment is (8% 0-15 days, 50% 16-30 days,

100% 46+ days). For stock borrowing, the value of securities received is subject to an appropriate haircut as defined in BIPRU 5.4 prior to the capital calculation.

As at 31st December 2010, the Counterparty Risk CRR was £32k, comprising of £29k from counterparty settlement risk and £3k from stock borrowing.

7 Operational Risk

7.1 Operational Capital Requirements under Pillar 1

Under Pillar 1, Numis has adopted the “Basic Indicator” approach to operational risk which is 15% of the average audited income over the past 3 years. As at 31st December 2010, the operational risk capital charge was £7,347k.

7.2 Operational Capital Requirements under Pillar 2

Under Pillar 2 the firm assesses the residual risk attached to its material risk exposures as described in section 4.