NUMIS SECURITIES LTD

Pillar 3 Disclosures 2013

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 disclosure requirements of Pillar 3 are set out in BIPRU Chapter 11 of the FCA 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 30th September 2013.

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, operational and non-operational risk. 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, operational and non-operational risks across the entire business.

2.2 Audit and Risk Committee

The PLC Audit and Risk Committee, which meets at least 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, operational and non-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 at least quarterly, ensures that all 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 Finance Director, Head of Legal, Risk and Compliance, Corporate Finance Director of Operations, Head of Research, Head of IT and Operations and the Head of HR. The committee reviews the following as a minimum:

- The approval of monthly Risk Dashboard reports prior to submission to the NSL and PLC Boards
- The mitigants and controls attaching to each of the material risks within the firm's risk register
- The key risk indicators (KRIs) 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 at least fortnightly, 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 Head of Legal, Risk and Compliance, 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
- Client money requirements and resources

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 FCA regulations. The following table summarises Numis' capital resources and capital requirements as at 30th September 2013 (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	77,920
Deductions from Tier 1 and Tier 2 Capital	(5,389)
Total Tier 1 capital plus Tier 2 capital after deductions	72,531
Tier 3 capital	13,276
Total capital after deductions	**85,807**
Market Risk Requirement	(5,439)
Credit Risk Requirement	(5,061)
Counterparty Risk Requirement	(74)
Operational Risk Requirement	(7,400)
Total Capital Requirement	**(17,974)**
Surplus Capital (Pillar 1)	**67,833**
Solvency Ratio (%)	**477%**

4 Risk Management Framework

Numis employs a risk management framework which takes account of all material risks across the business. A total of 60 underlying risks have been identified, all of which are categorised into one of ten generic risk types to facilitate reporting into the NSL and PLC Boards. The ten risk categories comprise governance risk, strategic risk, reputational risk, legal risk, regulatory risk, counterparty risk, market risk, liquidity/capital risk, operational risk and staff risk.

All 60 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 ten generic risk categories via a traffic light system, provides commentary and narrative on the more significant and/or material areas coinciding with the time of reports production and provides an indication of the short term outlook for each risk category.

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 30th September 2013, the Equity VAR was £142,000.

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 is 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). The equity stress test based on this methodology as at 30th September 2013 was £3,060,000.

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 VAR which applies the 3rd worst loss over a 256-day rolling data window. As at 30th September 2013, the Foreign Exchange VAR was £48,000.

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 30th September 2013, the Foreign Exchange Stress test was £206,000.

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 30th September 2013, Numis had a total Equity PRR of £4,620,000, a foreign exchange PRR of £434,000 and an interest rate PRR of £385,000 (total PRR of £5,439,000).

6 Credit Risk

Credit risk is the potential loss Numis would incur if a counterparty fails to settle under its contractual obligations or there is 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 suitable credit ratings as determined by the Board. 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. The reporting ranks the counterparties by exposure in sterling equivalent and lists the major stock contributors underlying the exposures. Limit breaches are highlighted daily for follow-up action and also discussed 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. The same methodology is used as the market risk stress test outlined in 5.1.1.2 because, 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 30th September 2013 was £456,306.

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 30th September 2013, Numis' Credit Risk capital requirement was £5,061,000. The following table shows the breakdown of this figure (figures in GBP 000's).

Asset	Value	Charge	Risk Weight	Requirement
Cash and cash equivalents	66,110	8%	20%	1,058
Pre-payments and receivables @100%	2,572	8%	100%	206
Loans and intercompany balances	24,234	8%	100%	1,939
Other assets	11,061	8%	100%	885
Derivatives				973
Total	**103,977**			**5,061**

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 30th September 2013, the Counterparty Risk CRR was £73,000, comprising of £73,000 from counterparty settlement risk and £nil 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 30th September 2013, the operational risk capital charge was £7,400,000.

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.

8 Remuneration

The following disclosures are made in accordance with the FCA's handbook for banks, building societies and investment firms (BIPRU) 11.5.18 (1) to (7).

8.1 Qualitative Disclosure

8.1.1 Role of the Remuneration Committee

The PLC Board delegates responsibility for the firm's remuneration policy to an independent PLC Remuneration Committee. The Remuneration Committee is responsible for determining the firm's policy on remuneration. The over-arching objectives of the policy are:

- To ensure that rewards and incentives are directly aligned with the interests of the shareholders, in order to optimise the long term performance of the Company within acceptable risk parameters and regulatory frameworks; and
- To provide the level of remuneration required to attract, retain and motivate employees of an appropriate calibre

Fixed and variable compensation is reviewed annually and is determined by the performance and conduct of the individual in addition to comparisons with peer group companies within the industry. The experience of the individual and level of responsibility are also taken into consideration. Total remuneration is determined in light of his or her performance and the economic performance of the firm as a whole.

The component parts of employees' remuneration comprise both fixed and variable elements as set out below:

- Base salary (fixed)
- Variable performance related remuneration comprising
    - Cash bonus (variable)
    - Equity Awards (variable)
- Pension (fixed as a direct percentage of base salary)

Other fringe benefits fall outside of the Remuneration Committee's terms of reference.

The overall compensation mix as an absolute ratio varies from year to year but is based on cash available for distribution, the competitive environment and the capital position of the firm and is always subject to the approval of the Remuneration Committee.

8.1.2 Composition of the Remuneration Committee

The chairman and members of the Remuneration Committee comprise three non-executive directors of the parent Company (PLC) who are members of the governing body and who do not perform any executive function within the firm. The Remuneration Committee is responsible for the approval of all recommended awards, including those individuals who fulfil risk and control roles within the firm.

8.1.3 Decision-making Process for Determining Remuneration Policy

Numis' remuneration policy is designed to promote sound and effective risk management by setting out clear and explicit guidelines, together with consequences for breaches of internal standards of behaviour and legal or other regulatory requirements. The firm has, and will continue to make use of, available sanctions which range from disciplinary action (up to and including dismissal) to financial penalties for such breaches.

Responsibility for the regular review and updating of the Remuneration Policy lies with the Head of HR and is subject to sign-off of any changes by the Remuneration Committee. This is carried out at least annually or more frequently where material changes occur and takes into account best practice standards and UK, and where relevant, non-UK regulation and legislation covering;

- Applicable employment and equality law
- FSA Code of Practice
- FSB Implementation Standards
- Tax legislation
- Pensions legislation

In carrying out its delegated responsibilities the Remuneration Committee receives advice on remuneration, tax, accounting and regulatory issues from external advisors and internally from both the Human Resources and Finance departments. In addition, other relevant stakeholders who may advise the committee include the Chief Executive Officer, the Finance Director, the Chairman of the PLC Board and other executive directors of the PLC Board. The Remuneration Committee is responsible for setting the remuneration policy for executive directors and other senior executives in the business and no Company employee is permitted to participate in the discussions or decisions of the Committee in relation to his or her own remuneration.

8.1.4 Link between Pay and Performance

The Remuneration Committee believes strongly that total remuneration should take into account the competition for talent in an industry where successful people are rewarded and mobile. The firm compensates employees through both fixed and variable compensation. Fixed compensation comprises mostly base salaries and the Remuneration Committee reviews these as part of their overall annual review taking into account the performance of the individual, comparisons with peer group companies within the industry, the experience of the individual and the level of responsibility.

The policy for variable compensation is to recognise corporate performance, individual achievement of objectives and individual conduct via means of a discretionary bonus scheme. The discretionary bonus pool is established by the Remuneration Committee each financial year with reference to the financial results of the firm, the firm's capital base and business outlook. Also taken into account is the need to deliver a sustainable level of variable performance related remuneration over the business cycle.

Discretionary bonus awards can be delivered in two main forms: a cash bonus and a deferred bonus. The executive directors and other senior executives assess individual performance through clearly defined objectives and a structured process of review and feedback.

In particular, the overall (fixed and variable) remuneration by individual is determined with regard to the performance and conduct of the individual, performance of the area or function of the business in which the individual works or for which the individual is responsible, the profitability of the firm and levels of reward for comparable roles in the external market.

The performance management process comprehensively links individual contributions to the firm, its growth, current success and risk profile to proposed compensation and assists in the reinforcement of performance and risk management.

The Remuneration Committee may exercise its discretion to adjust the proposed pool having considered the size of the pool against the overall performance of the business. This can include reducing variable compensation to nil where they feel it prudent and justified to do so.

Behaviour which compromises the reputation of, or causes material financial harm to the firm or its business activities is taken into consideration when determining discretionary bonus awards. In addition, the risk appetite of the firm is set out clearly in the firm's ICAAP and accompanying policy documents. Breaches in relation to these policies are communicated to HR and similarly taken into consideration when determining discretionary bonus awards.

8.1.5 Identification of Code Staff

Numis has given careful consideration to the guidance given by the FSA in PS10/21 and indentifies individuals as Code Staff having regard both to individual regulatory status and seniority of position. All department heads are designated as Code Staff whether or not they hold SIF status. It should be noted that whilst Numis has identified Code Staff, the principles of its remuneration policy apply on a group wide basis.

Consideration has been given to the risk profile of other senior members of staff who fall into similar remuneration brackets as Code Staff, specifically Traders and Managing Directors within Corporate Finance. These employee groups have been excluded for the following reasons:

Traders have clearly defined financial risk limits set by the NSL Board on their activity. Adherence to these limits is independently reported and subsequently monitored by management. In addition, their primary role is that of client facilitation. There is no material proprietary trading activity with the firm.

The ability of an employee who holds the status of Managing Director, Corporate Finance to contractually commit the firm is set out in the firm's authorised signatory policy, as approved by the NSL Board. Therefore Managing Directors operate within this designated authority. In addition, further risk control mechanisms exist through the operation of appropriate risk committees.

In summary Code Staff fall into the following categories of employees:

1. All PLC executive and non-executive directors
2. All members of the board of Numis Securities Limited
3. Other senior managers not included in the first two categories who are members of the firm's Management Committee - this comprises all Heads of Department and other employees whose activities have a material impact on the firm's risk profile

The first two categories have been designated Senior Management Code Staff.

The list of Code Staff is subject to annual review and approval by the Remuneration Committee as part of its annual review of the remuneration policy. During the course of any financial year, consideration of new joiners will be driven by HR with subsequent review and approval by the Remuneration Committee.

8.2 Quantitative Disclosure

The firm is required to disclose aggregate quantitative remuneration for its Code Staff for the year ending 30 September 2013 split between fixed and variable compensation paid to Senior Management Code Staff and Other Code Staff in respect of services provided while acting as Senior Management Code Staff or Other Code Staff. The firm operates an integrated investment banking business and, although there are different revenue types, there are no distinguishable business areas other than investment banking.

Financial year ended 30th September 2013:

	Senior Management	Other Code Staff	Total
	£'000	£'000	£'000
Fixed compensation	2,161	928	3,089
Variable compensation	5,810	1,774	7,584
Total compensation	7,971	2,702	10,673
Number of Code Staff	14	8	22

Financial year ended 30th September 2012:

	Senior Management	Other Code Staff	Total
	£'000	£'000	£'000
Fixed compensation	2,047	911	2,958
Variable compensation	1,217	810	2,027
Total compensation	3,264	1,721	4,985
Number of Code Staff	15	7	22

Fixed compensation includes base salary and benefits and, in the case of PLC non executive directors, any base fee paid by NSL in respect of services provided during the year ended 30th September 2013.

Variable compensation comprises cash bonuses awarded in respect of performance during the year ended 30th September 2013 and the value of all share awards granted together with the value of any other discretionary awards granted during the financial year irrespective of deferral periods or service conditions attaching to them.