Numis

Capital, Risk Management, Governance and Remuneration Disclosures 2019 (Pillar 3)

Contents

1 Introduction

1.1 Requirements

The Pillar 3 disclosures are prepared in accordance with the Capital Requirements Directive ('CRD IV'), which is the framework for implementing Basel III in the European Union. Basel III sets out certain capital adequacy requirement standards and disclosure requirements to be implemented by regulated firms. CRD IV consists of three Pillars:

- Pillar 1 sets a minimum level of regulatory capital a firm must hold for market, credit and operational risk.
- Pillar 2 is an internal assessment made by a firm, and evaluated by the Financial Conduct Authority ("FCA"), on whether the firm needs to hold additional capital against firm-specific risks not covered by Pillar 1. This assessment is documented by the firm in an Internal Capital Adequacy Assessment Process ("ICAAP") and evaluated by the FCA in a Supervisory Review and Evaluation ("SREP").
- Pillar 3 requires firms to publish details about their risks, capital and risk management.

1.2 Scope

Numis Corporation PLC ("NCP") meets the definition of a financial holding company of a UK consolidated group and therefore this Pillar 3 disclosure has been prepared on a consolidated basis.[1]

NCP is the ultimate holding company of a group of Numis companies (the "Group"). The Group legal structure contains two regulated entities:

- Numis Securities Limited ("NSL") is the main trading entity which is authorised by the FCA and operates in the United Kingdom (FCA Firm Reference Number ("FRN") 144822). It is a full scope 730k investment firm subject to the FCA regulations set out in the Prudential sourcebook for Investment Firms ("IFPRU").
- Numis Securities Incorporated ("NSI") is a registered broker/dealer in the USA. NSI primarily conducts a sales activity in the USA to institutional clients who invest in UK equities. It is regulated by the USA Financial Industry Regulatory Authority ("FINRA") (Central Registration Depositary number 128471/SEC 8-66139 & LEI – 213800GW3YZJDBPALN37).

1.3 Basis of Disclosure

In the UK, the relevant disclosure requirements of the CRD IV Pillar 3 are embedded in a combination of Part 8 of the Capital Requirements Regulation ("CRR") (Articles 431 to 455), the Capital Requirements Directive, which has been implemented by the FCA in IFPRU rules and associated guidelines, and additional standards and guidance released by the European Banking Authority ("EBA"). The disclosures in this document are not subject to audit and do not constitute any form of audited financial statement. The disclosures have been produced solely for the purposes of satisfying Pillar 3 regulatory requirements and have been reviewed and approved by senior management.

1.4 Frequency of Disclosure

Disclosures are made annually or, if appropriate, more frequently and are available via the firm's website (www.numis.com). The Pillar 3 disclosures can be found in the Legal and Regulatory section of this website found under the About Us webpage. The Group has an accounting reference date of 30 September and these disclosures are made as at 30 September 2019.

1.5 Corporate Background

The Group is a UK equity market focused investment bank and institutional broker serving mid and small cap companies and their investors. The Group's core business areas are:

- Investment Banking:
  - Equity capital markets.
  - Mergers & acquisitions.
  - Debt advisory.
  - Retained broker & adviser.
  - Private capital raising.
- Equity Research, Sales, Trading & Execution:
  - High quality research on UK listed companies.
  - UK, EU & USA sales.
  - Trading of mainly UK listed companies.
  - Distribution & execution.

The Group has over 200 corporate clients, including 54 in the FTSE 350 and a further 97 on the main market. These clients are in a wide range of sectors.

The Group has offices in London and New York. As at 30 September 2019, the Group had 277 employees (264 in London and 13 in New York).

1 Defined in the Capital Requirements Regulation ("CRR") Article 4 & 11 published by the European Banking Authority
http://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/-/interactive-single-rulebook/toc/504/article-id/671

2 Risk Management Governance

2.1 Our Risk Management Framework and Strategy
Effective risk management is key to the successful achievement of our strategic objectives. The Risk Management Framework ("**Framework**") sets out our approach of strong risk governance, clear articulation of risk appetite, effective internal controls, allocation of roles and responsibilities, and ongoing assessment of risk. So the Framework ensures that risk exposure facing the group of Numis companies (the "**Group**") is understood, limited, monitored and reported/escalated appropriately so that we can achieve our strategic goals.

The processes and procedures that form the structure of the Framework are detailed below:

- Identifying and assessing the implications of risks materialising.
- Compiling a complete list of all risks faced by the Group which forms a central risk register.
- Setting and defining a realistic risk appetite towards those risks.
- Allocating specific ownership and accountability for all the Group's risks.
- Embedding a control culture to mitigate the risks in line with the appetite.
- Improving the efficiency and effectiveness of the internal controls and developing specific action plans if residual risks and controls effectiveness fall below accepted tolerances.
- Reviewing risk incidents, identifying weaknesses, and reducing the frequency and impact of avoidable losses.
- Establishing and analysing appropriate Key Risk Indicators ("**KRIs**") and monitoring systems to escalate issues and emerging risks that affect the day to day operations of the Group.
- Completing checks of processes and procedures to confirm that the Framework is operating effectively.

The Framework enables risk to be considered in a consistent way across all areas of the business. It is key to embedding a robust risk culture in our day to day business activities. Notwithstanding management oversight, the effective control of risk depends upon all employees being conscientious and taking responsibility for their actions. The Framework therefore requires employees to act as the 'first line of defence' and report any type of risk event, whether it results in either a financial loss, gain, or is classed as a "near miss", in order to improve our understanding and control of risk.

The following diagram illustrates how our strategy, policies and Framework fit together. Our strategy presents inherent risks which must be assessed so that we can set a policy to control them. The Framework supports this control process and provides a structure whereby we can identify new and manage ongoing operational risk through an established structure. Furthermore, the Framework provides a means of assessing our capital and liquidity requirements which can augment our Internal Capital Adequacy Assessment Process ("**ICAAP**") and our Individual Liquidity Adequacy Assessment ("**ILAA**").

The Framework is designed to allow us to achieve our strategic objectives, which are to:

- Build the corporate franchise focusing on high quality companies.
- Become the leading UK equities platform.
- Develop complementary products and services.
- Maintain operating and capital discipline.
- Deliver shareholder returns.

2.2 Risk Governance

Risk management, risk oversight and assurance are distinct activities that are carried out by different individuals, committees and departments for any particular risk.

The Group operates a "three lines of defence" model as the basis for risk governance whereby:

- 1st Line: Risk Management – the risks to the Group are managed and owned by the business areas. The first line of defence consists of the business front line employees that understand and carry out their risk management responsibilities correctly and completely.
- 2nd Line: Risk Oversight – the second line is the independent oversight by the Risk and Compliance functions. They set and monitor policies, define work practices and oversee the business front lines with respect to risk and compliance.
- 3rd Line: Assurance – both the first and second lines are subject to internal audit reviews. This third line of defence regularly reviews both the business front lines and the oversight functions to ensure that they are carrying out their tasks to the required level of competency.

Each line of defence has responsibility to step in to ensure that risk management systems, processes and controls are operating in line with the procedures, rules and decision-making governance of the business. This approach is designed to guard against the materialisation of unwanted risks that are not within the Group's risk appetite. The three lines of defence model enables each employee to do this in a way that is consistent with his or her specific role, responsibilities and objectives. Management oversight and segregation of duties are fundamental to checking this first line of controls.

The key roles and responsibilities are summarised in the following tables:

Governance Model

	Three lines of defence		
	First	**Second**	**Third**
Activity	Risk Management.	Risk Oversight.	Assurance.
Responsibilities	Responsible for owning risks and identifying, recording, reporting and managing those risks. Responsible for design and performance of controls in place to mitigate those controls within agreed risk tolerances.	Group Framework. Overseeing risk policies. Setting risk appetite and tolerances. Providing advice and guidance on risk. Risk monitoring. Risk reporting. Arranging training programmes. Control testing.	Providing independent assurance to the Board on the adequacy of the design and effectiveness of the Group's governance, risk management and control frameworks.
Responsible Personnel	Co-CEOs. Senior Management. All business units and control function employees.	Risk and Compliance functions.	Internal Auditors.
Responsible Board/Committee	NSL & NSI Boards. New Business Committee. Transactional Risk Committee.	Risk Oversight Committee. Financial Risk Committee.	Audit Committee. Risk Committee. NCP Board.

2 Risk Management Governance continued

2.2.1 The Boards

The NCP Board is responsible for supervision of the Framework, approval of risk management policies and setting the overall risk appetite of the Group. All risk management functions ultimately report to the NCP Board. The Board receives regular risk management reports which provide an assessment of the exposures across the Group, together with detailed reports on market, credit, liquidity, and operational risks.

Risk exposures are monitored, controlled and overseen by the NSL Board and the committees mentioned above, which consist of senior management from revenue generating areas, as well as risk, legal, compliance and finance functions. Management oversight and segregation of duties are fundamental to the Framework.

Full details of the composition of Boards and committees are given in the annual report and accounts of the parent undertaking, NCP, which can be found on our website (www.numis.com) under the 'Biographies of the Board' section. The current and future needs of the business, including the knowledge, skills and expertise of the management body and its diversity, are considered as part of our recruitment process.

2.2.2 Audit Committee and Risk Committee

A decision to separate the Audit & Risk Committee was made in 2019 in order to deliver enhanced focus and accountability in relation to both financial reporting and on our key risks.

The Audit Committee, which met 4 times, is responsible for:

- Monitoring the content and integrity of financial reporting.
- Reviewing the appropriateness of accounting judgements.
- Reviewing the Group's regulatory reporting procedures and relationship with regulators.
- Reviewing and challenging the results from the Group's ICAAP, Individual Liquidity Adequacy Assessment ("ILAA") and Recovery and Resolution Plan ("RRP").

The Risk Committee, which met 4 times, is responsible for:

- Reviewing the Group's risk policies and ensuring that our control framework is operating effectively to identify, assess, control and monitor risk throughout the Group.
- Planning the scope of our Internal Audit programme and reviewing their independent assurance of the suitability and effectiveness of our Framework.
- Reviewing and providing approval of financial and other risk appetite levels and adherence thereto.

2.2.3 Risk Oversight Committee ("ROC")

The ROC assesses all significant risk exposures faced by the Group. The Committee's remit encompasses both financial and non-financial enterprise-wide risks and the methodology applied in order to identify, measure and report the impact of such risks. One of the key responsibilities of the ROC is to manage the overall method and format of risk reporting into the Risk Committee and the Group Boards.

The ROC is responsible for:

- Monitoring the Group's risk universe for potentially key emerging threats and risks. This includes assessing the impact of third party operating events, assessing the impact of regulatory changes and new developments on the Group's activities and strategy.
- Recommending appropriate actions to the Risk Committee when there is an inappropriate mismatch with the overall risk appetite.

2.2.4 Financial Risk Committee ("FRC")

The FRC is responsible for ensuring that the day-to-day operating activities are managed within the financial risk appetite and controls framework. It reviews the detailed components of market, credit and liquidity risk exposures of the business to ensure that these risks are monitored and assessed appropriately.

As a minimum, the FRC reviews:

- Market risk exposures associated with our equity and derivative positions.
- Trading book and individual stock VaR in comparison to risk appetite.
- Performance of the trading book overall and at individual stock level.
- Currency risk exposures and VaR in comparison to risk appetite.
- Credit risk exposures to trading counterparties and deposit-taking counterparties.
- Liquidity and concentration risk of the cash and cash equivalent assets.
- Capital resources of the Group compared to the Capital Requirements Directive Pillar I capital requirement and additional Pillar II requirements.

2.2.5 Client Assets ("CASS") Committee

The CASS Committee has oversight of all issues in relation to safeguarding client custody assets and client money.

2.2.6 New Business Committee ("NBC")

The NBC is responsible for oversight of all new corporate client relationships and mandates.

2.2.7 Transactional Risk Committee

The Transactional Risk Committee is responsible for the approval of all privateside transactions immediately prior to launch or document publication.

2.2.8 Risk Function

The Risk function has day-to-day responsibility for monitoring and reporting risk exposures within the Group and escalation of issues to senior management.

The Risk function has responsibility for:

- Daily reporting of market, credit and liquidity risk key indicators to senior management.
- Monitoring the level of principal trading position-taking.
- Setting pre-trade counterparty controls and monitoring related counterparty exposure.
- Monitoring liquidity requirements including margin levels at Central Counterparties ("CCP"s) and other liquidity requirements.
- Reviewing and reporting operational risks of the Group's activities.
- Monitoring the capital adequacy position of the Group and NSL against the regulatory requirements.

2.2.9 Internal Audit

Internal Audit aims to provide assurance over whether the Group's systems, controls and governance processes are operating effectively so that strategic and business objectives can be achieved. Internal Audit is independent of both the Group's day to day operations and its management and reports to the Risk Committee. Internal Audit aims to provide independent assurance that both the first line and second line of defence has been considered and challenged appropriately. As such, the primary role of Internal Audit is one of independent assurance of the Framework. The Board has outsourced its Internal Audit function to KPMG.

2.2.10 Effective Challenge

The Framework is designed to enable the Group to make informed decisions, based on information derived from identification, measurement or assessment and monitoring of risks. Risks are evaluated bottom-up and top down through the management structure as well as across business lines, using consistent terminology and compatible methodologies.

The Framework is reassessed regularly against the risk appetite and tolerance, considering information from the Boards, committees, Risk functions and Internal Audit.

2.3 Number of Directorships

Excluding other Numis Group companies (such that relevant directorships within the Numis Group of companies count as one directorship collectively) and entities not undertaking predominantly commercial objectives, each executive member of the over-arching management body (NCP Board) holds just one executive position.

The total number of directorships that may be held by each non-executive member of the over-arching management body (NCP Board) ranges between one and four non-executive positions or one executive and two non-executive positions. Executive members of the management body are not permitted outside non-executive positions.

The NCP Board is satisfied that each member of the management body is able to devote sufficient time to perform the duties relevant to their individual function within the firm, taking into account the nature, scale and complexity of the firm's activities along with the requirements of directorships held outside of the Numis group of companies.

2.4 Recruitment and Diversity

Our people are the key factor in determining the long-term success of our business. Attracting, engaging and motivating our staff is essential to maintain our competitive advantage. The recruitment process for the selection of members of the management body is a focus of the Nominations Committee. The Nominations Committee only engages executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice. The committee seeks to ensure it remains an effective driver of diversity in its broadest sense, having regard to gender, ethnicity, background, skillset and breadth of experience. Our recruitment strategy and efforts are therefore purposefully designed to impede unconscious biases and ensure a fair selection process. We are committed to developing an environment which promotes equality of opportunity, values diversity, supports differences and encourages input from all perspectives.

Further information on the Nominations Committee is available in the Business Review and Governance sections of the Annual Report & Accounts which can be found on the firm's website (www.numis.com).

3 Risk Management Approach and Assessment

3.1 Our Risk Management Framework and Internal Capital Adequacy Assessment Process ("ICAAP")

The ICAAP, which is approved by the Board, documents management's assessment of the risk profile of the business and the resulting, internally assessed, capital requirements. This process seeks to ensure that the risk profile of the Group is assessed on an ongoing basis for all known material risk exposures faced by the firm, taking into account all relevant mitigants and controls in place, which are established in line with the Group's risk appetite. The residual risk is mitigated by setting aside sufficient capital to meet the potential impact of the combined residual risk exposures. Stress testing is incorporated into this process to assess the Group's exposure to extreme events and to ensure that appropriate management actions and mitigating plans are in place.

The ICAAP is integrated with our Framework and sets out our on-going process for assessing our capital adequacy in relation to our risk profile. We estimate our capital requirements as follows:

- Objectives & Risks. All key risks to meeting the Group's objectives are identified.
- Risk Appetite. Having considered risk exposures of the business, the Group ensures that it contains these risks within acceptable levels. This risk appetite is articulated in both qualitative and quantitative terms. The Group has appetite for risk only where it has the expertise to manage the risk, those risks are consistent with and contribute to the delivery of our objectives, and excessive concentration of risk is avoided. Whilst risk appetite may be very low for certain events, a level of tolerance is also set to meet possible incidents that could materialise.
- Risk Controls. Mitigating controls associated with each key risk are identified and tested using Risk & Controls Self-Assessment ("RCSA") workshops engaging the various business areas and a top down management assessment process.
- Risk Assessment. Taking into account these mitigating controls, an assessment is made for each individual risk of the adverse financial impact if the event occurs (in GBP) and the likelihood of the event occurring (based on the frequency of its likely occurrence e.g. once a year, once every 2 years, once in 5 years, etc.).
- Internally Assessed Capital. A capital requirement (in GBP) for each risk is determined by using this impact/likelihood approach. Note that Value-at-Risk ("VaR") model results are used for the market and credit risks instead of the bottom-up approach because VaR is considered to be a more effective and dynamic measurement for these risks.
- Pillar 2 Capital. For each risk category, a capital requirement is calculated as the greater of the Pillar 1 and the Group's internal risk measurement. Forward-looking assessments of the Group's potential risks in periods of stress are modelled to determine the capital adequacy over future stress scenarios.

Risk appetite and tolerances are defined for all risk types and sub-risk categories. The Board approves the appetite and tolerance levels and the Risk function monitors whether the risk exposures are kept within the agreed levels through regular reporting which supports strategic and operational decision making. The Group has operated within the tolerances throughout the year.

3.2 Risk Approach and Assessment

The following provides supplementary information to that provided in the 2019 Annual Report and Accounts.

3.2.1 Strategic Risk

The Group recognises that continued improvement in the way in which our strategy is executed is key to our long-term success. In particular, senior management is subject to healthy challenge from the NSL and NCP Boards and Committees on the firm's strategic direction, execution of strategy and the implementation of agreed initiatives. This includes significant focus on the risks that threaten the achievement of the firm's strategy as well as those that present the greatest opportunity.

3.2.2 Market Risk – Equity Risk

The Group's principal market risk arises from its holding of equity positions arising through the course of its market-making, trading and investment activities, through equity price changes and market volatility.

The main metrics used for the daily management and control of equity risk is Value at Risk ("VaR") and absolute limits on gross and net holdings.

3.2.3 Market Risk – Foreign Exchange Risk

Foreign exchange risk arises from exposure to movements in foreign exchange rates and the volatility of those rates. The Group's activities are predominantly denominated in GBP. There are less material assets and liabilities denominated in foreign currencies.

The same methodology to that used for equity risk described above is employed to compute a daily foreign exchange VaR.

3.2.4 Credit Risk

The Group is exposed to credit risk from the potential loss from a counterparty failing to settle under its contractual obligations. Credit risk includes:

- Trading book investing and financing activities. The primary source of credit risk faced by the Group is that arising from the settlement of equity trades carried out in the normal course of business. The Group applies credit limits for counterparty exposures according to the type of counterparty and an assessment of its risk.
- Non trading book receivables such as corporate finance receivables, loans, other non-trading receivables and prepayments and accrued income.

- Cash deposits which are held with large UK based commercial clearing banks with suitable credit ratings as determined by the NCP Board.
- Settlement risk on unsettled trades is subject to a greater degree of risk which increases as the overdue period increases. This risk is minimised by settling on a Delivery versus Payment ("DvP") basis through Crest or other Central Securities Depositaries.
- The Group is a direct member of the London Clearing House, a Central Counterparty, which applies margin calls on any unsettled trades. The Group does not use other credit risk mitigation techniques.

3.2.5 Liquidity Risk

Liquidity risk is the risk that funds are either not available to service day-to-day funding requirements or are only available at a high cost or need to be arranged at a time when market conditions are unfavourable and consequently the terms are onerous. Liquidity is of vital importance to the Group to enable it to continue operating in even the most adverse circumstances. The Group assesses its liquidity position on a daily basis and computes the impact of various stress tests to determine how liquidity could be impacted under a range of different scenarios. The Group currently maintains sufficient excess liquidity, and has access to a committed revolving credit facility, so that it can be confident of being able to settle its liabilities and continue operations even in the most difficult foreseeable circumstances.

3.2.6 Capital Risk

Capital risk is the risk that there is insufficient capital to support our business activities and to meet our regulatory capital requirements. It could principally arise from reductions in capital resources caused by operating losses or increases in capital requirements caused by larger trading book positions, including crystallised underwritten positions.

The Group monitors its capital excess on a daily basis and seeks to maintain a healthy capital excess by the use of regular reporting of internal alerts to flag any potential risk events.

3.2.7 Operational Risk

Operational risk is the risk of loss (or gain) resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk can also be impacted by factors such as the loss of key staff, the quality of execution of client business, the maintenance of performance management controls, and a major infrastructural failure and/or terrorist event.

The Group takes steps to identify and mitigate or reduce operational risk wherever possible. Control standards are applied by suitably trained and supervised individuals and senior management is actively involved in identifying and analysing operational risks to find the most effective and efficient means to mitigate and manage them. Additionally, the Group completes RCSAs to review existing and identify new operational risks and discuss mitigating control activities with the Risk function.

These risks are populated onto a risk register and are subject to on-going review.

The use of a fully independent, outsourced Internal Audit function provides further assurance over the adequacy and effectiveness of the systems of internal control throughout the business as well as helping to identifying enhancements that provide further risk mitigation.

3.2.8 Technology Risk

Technology risk is the risk to the Group of a failure to have robust systems, inadequate or inconsistent oversight of business critical systems or IT projects and inadequate provision or communication of the Business Continuity Process. It is inherent in the Group's business and is not controllable by a single process or quantitative limit. The Group takes steps to identify and avoid or mitigate technology risk wherever possible. Control is applied by a combination of policies, procedures, monitoring and escalation by senior management. Control standards are applied by suitably trained and supervised individuals and senior management is actively involved in identifying and analysing risks to find the most effective and efficient means to mitigate and manage them.

3.2.9 Human Resources Risk

Retaining, attracting and developing key staff is essential to the long-term success of the business. The Group therefore places particular focus on its remuneration policy and strategies, including considering the appropriate allocation and mix of cash and share based awards, and maintains formal structured performance-based staff evaluations.

3.2.10 Governance, Regulatory, and Legal Risk

The Group policy encourages an intense focus by senior management on the long-term, sustainable success of the business. This specifically includes robust corporate governance, avoidance of the likelihood of litigation and compliance with the relevant regulatory and legal requirements for the jurisdictions in which the Group operates. A strong culture towards regulatory, legal and compliance permeates throughout the Group. Compliance procedures are maintained across the Group and our Compliance function supports senior management in meeting their obligations as well as carrying out risk-based monitoring of the Group's compliance with relevant regulation. Similarly the Group's legal obligations are overseen by suitably qualified in-house legal resource.

3.2.11 Conduct Risk

The Group's success has been built on its client relationships and it actively seeks to put its clients' best interests at the heart of its strategy and actively assesses, monitors and mitigates areas of possible conduct risk.

3 Risk Management Approach continued

3.2.12 Macroeconomic Risk
There is a risk that deterioration in the business and economic environment, or an increase in political instability, could adversely affect the financial condition and prospects of our business. For example, GBP could be further devalued, which in turn may lead to inflation and increasing interest rates. This creates an increased risk of a UK recession, which would likely negatively impact our investment banking transaction levels.

The Group has built a substantial corporate and institutional client base, that has historically positioned us relatively well during periods of economic downturn. We continue to generate significant corporate retainers and diversify our business into new product lines.

3.2.13 Reputational Risk
Whilst revenue generating departments are encouraged to seek new and develop existing clients and streams of income, all new business is subject to a rigorous appraisal process supervised by a New Business Committee. For all activities, this favours high quality clients. The Group places great emphasis on employing and adding highly experienced senior staff who are very closely engaged with clients. To aid the application of best practice, regulatory compliance and consistency, management continues to make use of standardised operating procedures. Finally, the Board sets the tone by demanding a strong ethical and professional culture as the only acceptable standard for the Group.

3.2.14 Securitisation and Pension Risk
The Group does not securitise assets or hold positions in securitised assets, nor does it offer defined benefit pension schemes to employees.

3.2.15 Interest Rate Risk and Risk of Excessive Leverage
Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The interest bearing assets are predominantly held in cash or cash equivalents which are subject to floating rates of interest and are outside the trading book. The exposure to fluctuations in the market rate of interest is therefore immaterial. Further details can be found in section 8 of this document and in Note 26 of the Group's Financial Report and Accounts on the website (www.numis.com) within the Legal and Regulatory Conditions/Financial Reports section.

3.2.16 Group Risk
Group risk is the risk that the financial position of a firm may be adversely affected by its relationships with other entities of the same group or by risks that may affect the financial position of the whole group. The Group has sufficient capital resources to support its main operating entity, NSL, and other Group companies. NSL does not rely on other Group companies for IT, staff or other services. Therefore the Group has made no internal capital allocation for this risk.

3.3 Declaration
The NCP Board is responsible for supervision of the Framework, approval of risk management policies and setting the overall risk appetite of the Group. All risk management functions ultimately report to the NCP Board. The Risk Committee is responsible for the evaluation and maintenance of the internal control environment of the Group. It receives reports relating to risk exposures and mitigating controls from the Risk function as well as detailed findings arising from Internal Audit reviews. These reviews provide assurance over the adequacy and effectiveness of the systems of internal control throughout the business and ensure that the Group's approach towards continuous improvement and controlling our risk exposures is maintained.

The Group has a number of committees with formal terms of reference and a Risk function and a Compliance function responsible for the Group's adherence to operating within its risk appetite and the rules of the FCA and other relevant regulators.

The Group's Framework and system of internal controls has been actively managed throughout the year. Accordingly, management is confident that the risk management arrangements employed by the Group continue to provide reasonable assurance over identification, mitigation, monitoring and reporting of the risks to which the Group is exposed.

4 Capital Resources and Requirements

4.1 Summary
The table below presents a reconciliation between total equity in the audited financial statements and the Group's regulatory capital resources (Own Funds) as at 30 September 2019:

	£'000
Permanent share capital	5,922
Retained earnings	111,593
Other reserves	20,639
Intangible assets	(77)
Total Pillar 1 Own Funds	**138,077**

The table below presents the Group's Pillar 1 capital requirements as at 30 September 2019:

	£'000
Market Risk Requirement	(11,306)
Credit Risk Requirement	(5,840)
Operational Risk Requirement	(18,926)
Total Pillar 1 Regulatory Capital Requirement	**(36,072)**
Risk Weighted Assets ("RWA")	**450,902**

Following completion of the annual audit, the above Operational Risk Requirement includes a corresponding adjustment, resulting in a total capital ratio of 30.6%.

The Group is required to maintain additional buffers in line with standard regulatory requirements in order to increase the resilience of the financial sector during periods of stress when losses may materialise. These buffers are shown below:

Capital Conservation Buffer (2.5% of RWA)	11,273
Countercyclical Capital Buffer (1% of RWA)	4,509

4.2 Capital Resources
Common Equity Tier 1 capital is the core measure of an institution's financial strength and the highest ranking form of capital. It is comprised of ordinary share capital and disclosed (audited) retained earnings. The Group does not hold any other forms of capital or instruments outside Common Equity Tier 1 capital.

4.3 Capital Requirement
Capital resource requirement is the sum of the market risk, credit risk, and operational risk capital requirements.

4.3.1 Market Risk Requirement
Market risk requirement for Pillar 1 is calculated in accordance with IFPRU 6 and CRD IV using the relevant standardised approach. The Group is mainly exposed to position risk in respect of equity instruments, collective investment undertakings ("CIU") and foreign exchange positions.

The following table shows the breakdown of requirement by exposure class:

	RWA £'000	Risk Factor	Requirement £'000
Equity	27,377		2,190
CIU	95,317		7,625
Foreign Exchange	18,634		1,491
Total	**141,328**	**8%**	**11,306**

4.3.2 Credit Risk Requirement
Credit risk requirement for Pillar 1 is calculated in accordance with IFPRU 4 and CRD IV using the standardised approach.

The following table shows the breakdown of requirement by exposure class:

	RWA £'000	Risk Factor	Requirement £'000
Institutions	19,883		1,591
Corporates	6,989		559
Equity	23,414		1,873
Settlement	2,416		193
Other	20,295		1,624
Total	**72,997**	**8%**	**5,840**

The Group uses credit risk calculation techniques in line with the standardised approach to determine risk weighted exposure amounts. This affects the valuations of Institutional and Corporate exposures including outstanding foreign exchange transactions, stock borrowing trades and corporate receivables from Small and Medium Enterprises ("SMEs").

The Group uses Fitch ratings (an External Credit Assessment Institution ("ECAI")) as part of its assessment of Institutional exposures as well as for the purpose of depositing its own cash resources and client money.

4 Capital Resources and Requirements continued

4.3.3 Non-Trading Book Exposures in Equities

'Positions held with trading intent' are either market making or client servicing positions, positions intended to be resold short term, or positions intended to benefit from expected short term price differences. The Group has minority equity holdings in certain unlisted investments which do not meet this requirement and are therefore outside the Trading Book. These strategic investments are held on the Group balance sheet at fair value on an IFRS Level 3 basis. Details are provided in Note 26 of the Group's Financial Report and Accounts on the website (www.numis.com) within the About Us/Legal and Regulatory Conditions/Financial Reports section.

4.3.4 Settlement Risk Requirement

Settlement risk requirement for Pillar 1 is calculated in accordance with CRD IV. Under CRD IV, settlement risk is derived from exposures on unsettled delivery versus payment transactions in securities (i.e. transactions which remain unsettled after their due settlement/delivery date) multiplied by a factor depending on how many days overdue a payment or delivery is. The exposure on an unsettled trade is calculated as the difference between the agreed settlement price and the current market price of the underlying instrument due to be delivered where this difference could involve a loss for the firm.

4.3.5 Operational Risk Requirement

Operational risk requirement for Pillar 1 is calculated in accordance with the Basic Indicator Approach set out in CRD IV. Under this approach, the operational risk requirement is equal to 15% of the average audited relevant income over the past 3 years.

5 Credit Risk and Dilution Risk

5.1 Past Due and Impaired Financial Assets

In accordance with IFRS 9, trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for expected credit losses is established when there is objective evidence that the Group may not be able to collect all amounts due. Such evidence includes the ageing of a debt, a persistent lack of communication and internal awareness of third party trading difficulties. The amount of any expected credit loss provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

5.2 Provision for Impairment

The Group uses the simplified approach for calculating its expected credit losses. The Group has calculated its expected credit losses using a provision matrix, which is based on the ageing of its receivables balance, which can be adjusted for changes to the general economic outlook. As the overwhelming majority of the Group's trade receivables are due from existing customers with ongoing contracts with the Group, expected credit losses remain very low and immaterial to the Group as a whole. The Group continually monitors its trade and other receivables balances and liaises with client directors within the business to ascertain recoverability of overdue receivables and to assess any risk of default. As such the Group calculates its expected credit losses to be a specific percentage of all overdue balances grouped by the length overdue and fully provides for any balances overdue by more than one year.

As at 30 September 2019, impairment provisions are held against Other Receivables which primarily comprise fee debtors arising from the firm's corporate finance activities. The movement in impairment provisions during the year is set out below:

	2019 £'000	2018 £'000
At 1 October	**409**	106
Utilisation	**–**	–
(Release)/charge to the income statement	**(61)**	303
At 30 September	**348**	409

5.3 Credit Exposure by Geographical Distribution

Of the credit exposures totalling £73.0m set out section 4.3.2, there are no material exposures outside of the UK except for £5.5m in relation to Continental Europe.

5.4 Credit Exposure by Counterparty Type

Of the credit exposures totalling £73.0m set out section 4.3.2, £19.9m relates to Banks, £30.4m relates to Non-Banks and the remainder relates to other counterparties.

5.5 Credit Exposure by Residual Maturity

Of the credit exposures totalling £73.0m set out section 4.3.2, £52.7m has a residual maturity of 3 months or less, £7.7m has a residual maturity between 3 months and 1 year, and £12.6m has a residual maturity of over 1 year but less than 5 years.

6 Country-by-Country Reporting ("CBCR")

The obligation to publish CBCR information under Article 89 of the CRD IV and the Capital Requirements (Country-by Country Reporting) Regulations 2013 is provided on the Group's website (www.numis.com) within the Legal and Regulatory section.

7 Return on Assets

The Group's return on assets (calculated as profit for the year after tax divided by average total assets) for the year ended 30 September 2019 is 2.2% (2018: 5.6%).

8 Leverage Ratio

The Group's leverage ratio (calculated as Tier 1 capital resources divided by total assets less intangibles) for the year ended 30 September 2019 is 41.2% (2018: 24.8%).

The Group operates as an investment firm, rather than a credit institution, and the leverage ratio measurement can fluctuate significantly mainly as a result of changes in trading book counterparty receivables.

9 Asset Encumbrance

The Group's encumbered assets balance comprises collateral deposits (held at a Central Counterparty and a settlement agent) and trading counterparty receivables. On this basis, the Group's asset encumbrance ratio is 56%.

10 Remuneration

The following disclosures are made in accordance with Article 450 of the Capital Requirements Regulation, SYSC19A Remuneration Code of the FCA's handbook for banks, building societies and investment firms and taking into account the FCA's General Guidance on Proportionality: The Remuneration Code (SYSC 19A).

The requirements recognise that not all Remuneration Code principles apply to firms equally. The concept of proportionality exists in order to take account of a firm's individual size, internal organisation and the nature, scope and complexity of its activities. Currently there is a 3 tier level of proportionality defined by the FCA which sets out their expectations on the level of application of the Remuneration Code requirements.

Under this guidance, the Group falls into the definition of the lowest tier, namely proportionality tier 3. The following disclosures reflect the requirements for such tier 3 firms.

10.1 Qualitative Disclosure

10.1.1 Role of the Remuneration Committee

The NCP Board delegates responsibility for the firm's remuneration policy to an independent NCP 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 aligned with the interests of shareholders, in order to optimise the long term performance of the Group within acceptable risk parameters and regulatory frameworks.
- 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 personal performance and the economic performance of the Group as a whole.

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

- Basic salary (fixed).
- Variable performance related remuneration comprising:
  - Cash bonus (variable).
  - Additional Equity Award (delivered in RSUs typically over years 1, 2 and 3).
- Pension (fixed as a direct percentage of basic salary and paid into the Group Personal Pension Plan)
  - For higher earners, a payment in lieu option into a Fund and Share account can be requested following due process (detailed separately on the Benefits website).

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

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

10.1.2 Composition of the Remuneration Committee

The chairman and members of the Remuneration Committee comprise three independent non-executive directors of NCP who do not perform any executive function within NSL. The Remuneration Committee is responsible for the approval of awards to individuals who fulfil risk and control roles (Code Staff) within the firm. The Remuneration Committee met four times during the year ended 30 September 2019 in addition to documented discussions via telephone, particularly throughout the period in which year-end remuneration processes were undertaken.

10.1.3 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 Group 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 Human Resources and is subject to independent review and approval by the Remuneration Committee. This is carried out at least annually and takes into account best practice standards and UK, and where relevant, non-UK regulation and legislation covering:

- Applicable employment and equality law.
- FCA Codes of Practice.
- 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, Risk, Compliance and Finance functions. In addition, other relevant persons who may advise the committee include the Co-Chief Executive Officers, the Chief Financial Officer, the Chairman of the NCP Board and other executive directors of the NCP Board as deemed appropriate. The Remuneration Committee is responsible for setting the remuneration policy for executive directors and other senior executives in the business and no employee is permitted to participate in the discussions or decisions of the Committee in relation to his or her own remuneration.

10 Remuneration continued

10.1.4 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 Group 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 his or her level of responsibility.

The policy for variable compensation is to recognise corporate performance, team/department performance, individual achievement of objectives and individual conduct and adherence to corporate values 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.

Discretionary bonus awards can be delivered in two main forms: a cash bonus delivered up-front which is subject to claw back under certain conditions and/or a deferred bonus delivered in shares. The executive directors and other senior executives assess individual performance through clearly defined objectives and behaviours as part of 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 Group and levels of reward for comparable roles in the external market.

The performance management process links an individual's contribution to the firm, its growth, current success and risk profile to compensation and assists in the reinforcement of performance, conduct and risk management.

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

Behaviour which falls short of the expected standard in any way, compromises the reputation of, or causes material financial harm to the Group or its business activities is taken into consideration when determining discretionary bonus awards. In addition, the risk appetite of the Group is set out in the Group'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.

The Group's policy is to apply a claw back in relation to material wrongdoing to all employees in receipt of a cash bonus. The claw back is applied for a period of 3 years and becomes effective on the day the employee receives the cash bonus payment.

10.1.5 Identification of Code Staff

Careful consideration is taken to identify individuals whose professional activities have a material impact on the firm's risk profile. In addition, the Group identifies 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 approved persons status. It should be noted that whilst Numis has identified Code Staff, the principles of its remuneration policy apply on a group wide basis.

The assessment of Code Staff includes any employee who is deemed to have a material impact on the firm's risk profile in accordance with Regulation (EU) 604/2014 of 4 March 2014 (Regulatory technical standards to identify staff who are material risk takers).

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

- Member of the NSL and/or NCP Boards.
- Head of a department.
- Senior market maker.
- Total annual remuneration of EUR 500,000 or higher.

The first category comprises 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.

10.2 Quantitative Disclosure

10.2.1 Aggregate Fixed and Variable Remuneration

The Group is required to disclose aggregate quantitative remuneration for its Code Staff for the year ending 30 September 2019 split between fixed and variable compensation paid or payable 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 Group operates an integrated investment banking business and, although there are different revenue types, there are no distinguishable business areas other than the provision of this service.

Financial year ended 30 September 2019

	Senior Management £'000	Other Code Staff £'000	Total £'000
Fixed compensation	2,764	4,420	7,184
Variable compensation	2,763	4,325	7,088
Total compensation	**5,527**	**8,745**	**14,272**
Average number of Code Staff	14	25	39
Non-cash variable compensation awarded in shares (£'000)	315	1,445	1,760

Fixed compensation includes base salary and benefits and, in the case of NCP non-executive directors, any base fee paid by the Group in respect of services provided during the year.

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

10.2.2 Aggregate Deferred Remuneration

The following table sets out the movement in the fair value of outstanding deferred remuneration during the year ended 30 September 2019 in respect of Code Staff. Grant date fair values have been used throughout the table consistent with the disclosures made in 10.2.1 above.

	Outstanding deferred remuneration 1 October 2018 £'000	Awarded during the year £'000	Paid out during the year £'000	Other* £'000	Outstanding deferred remuneration 30 September 2019 £'000
Senior management	10,797	1,038	(429)	153	11,559
Other Code Staff	10,476	1,598	(1,660)	(6,178)	4,236
Total	**21,273**	**2,636**	**(2,089)**	**(6,025)**	**15,795**

* Other – net of amounts forfeited and Code Staff changes during the year

Of the outstanding amounts as at 30 September 2019, £65,000 related to vested awards, none of which are held by senior management.

10.2.3 Aggregate Sign-On and Severance Payments

During the year ended 30 September 2019 there was one sign on payment of £750,000 in the form of RSUs made to a Code Staff employee and no payments in respect of severance.

10.2.4 Banding Disclosure

The number of Code Staff whose total remuneration exceeded EUR 1m for the year ended 30 September 2019 is shown in the table below:

	Senior Number	Other Number
EUR 1m to EUR 1.5m	1	–
EUR 1.5m to EUR 2.0m	1	–
EUR 2.0m to EUR 2.5m	–	–
EUR 2.5m to EUR 3.0m	–	–
EUR 6.0m to EUR 6.5m	–	–
EUR 7.0m to EUR 7.5m	–	–
Total	**2**	**–**

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