NUMIS SECURITIES LTD

Pillar 3 Disclosures 2009

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. These disclosures are made as at 31st December 2009.

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 Framework

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 of the PLC board.

Financial risk exposure is 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 financial risk updates which detail Numis' exposure to market, credit, liquidity and operational risks.

The PLC Audit Committee 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 Committee similarly receives financial risk updates with Numis' exposure to market, credit, liquidity and operational risks. Controls and policies are reviewed and challenged to ensure their effectiveness and to reflect changes in requirements and best practice.

2.2 Financial Risk Committee

The Financial Risk Committee ensures that the day-to-day operating activities of Numis are being managed within the control framework approved by the PLC board and the PLC Audit Committee. The committee meets weekly on a formal basis and comprises *inter alia* the Chief Executive, Finance Director, Head of Trading, Risk Manager, Head of Compliance and the Treasurer. The committee reviews the following as a minimum:

- Market Risk exposures on equity and derivative positions
- Value-at-Risk limits for both single stock positions and higher (book-level) aggregations
- Credit Risk exposures to trading and deposit-taking counterparties
- Liquidity risk of our free cash and cash equivalents (e.g. Treasury bills)
- Foreign exchange risk on foreign denominated assets/liabilities
- Capital Adequacy
- Operational Issues
- Risk methodology and reporting changes

2.3 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 Committee.

3 Capital Resources and Requirements

Numis has an Internal Capital Adequacy Assessment Process (ICAAP), approved by the board (as per CRD), 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 mitigating controls and that sufficient capital is maintained to withstand 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 2009 (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 (after deductions)	91,324
Deductions from Tier 1 and Tier 2 Capital	(5,302)
Total Tier 1 capital plus Tier 2 capital after deductions	86,022
Tier 3 capital	2,583
Total capital	**88,605**
Market Risk Requirement	(4,474)
Credit Risk Requirement	(7,645)
Counterparty Risk Requirement	(24)
Operational Risk Requirement	(9,192)
Total Capital Requirement	**(21,335)**
Surplus Capital (Pillar 1)	**67,270**
Solvency Ratio (%)	**415%**
Additional Pillar 2 requirements	**(13,880)**
Surplus Capital (Pillar 2)	**53,390**

4 Market Risk

4.1 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.

4.1.1 Risk Methodologies

4.1.1.1 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 daily price event over this period. VAR is calculated for individual stocks and at higher levels of aggregation. VAR guideline thresholds are placed on individual stocks based on index and at the various levels of aggregation. VAR limits are placed at the aggregated level. VAR exposures are reported at the end of each trading day at stock and aggregate level against guideline thresholds and limits. Back testing of VAR against actual profit or loss experience is performed daily and periodically reviewed to validate the VAR model.

VAR figures are reported daily to the Financial Risk Committee and a summary is presented to the both the Numis and PLC board as well as the PLC Audit Committee. As at 31st December 2009, the Equity VAR was £155k.

4.1.1.2 Stress Tests

In addition to the Value-at-Risk, two stress tests are conducted on a daily basis.

4.1.1.2.1 Historical Simulation stress test

This stress test uses a similar methodology to the VAR described in 4.1.1.1. The differences are the holding period (20 days instead of 1), the worst daily price event is taken instead of the third worst daily price event 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. This stress test is used internally as an input to a liquidity measure which determines a minimum threshold for levels of free cash. The equity stress test based on this methodology as at 31st December 2009 was £3,780k.

4.1.1.2.2 40/20 stress test

This stress test uses a highly conservative shock of 40% of the net long equity position added to a 20% shock of the net short position. This is designed to mimic the most severe catastrophic movement in market prices and is used internally as a Pillar 2 add-on in order to assess additional economic capital requirements. As at 31st December 2009, the equity stress test based on this methodology was £8,828k (based on net long position of £18,818k and net short position of £6,521k).

4.2 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.

4.2.1 Risk Methodologies

4.2.1.1 Value-at-Risk

The identical methodology to that used for equity risk described in 4.1.1.1 is employed to compute a daily Foreign Exchange Value at Risk (3rd worst price event, 256-day rolling data window). As at 31st December 2009, the Foreign Exchange Value-at-Risk was £89k.

4.2.1.2 Stress Test

The identical methodology to that used for equity risk described in 4.1.1.2.1 is employed to compute a foreign exchange stress test (worst price event, 20 day holding period, static 256-day data window). As at 31st December 2009, the Numis Foreign Exchange Stress test was £238k.

4.3 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 2009, Numis had a total Equity PRR of £3,965k, a foreign exchange PRR of £468k and an interest rate PRR of £41k (total PRR of £3,006k).

5 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. Although the gross receivable amounts in connection with the securities trading activity can be significant, in reality the associated credit risk is relatively limited because these counterparty receivable balances are settled on a delivery versus payment (DVP) basis.

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 comprise the non-trading receivable components of the firm's balance sheet including corporate finance receivables, loans, other non-trading receivables and prepayments and accrued income.

5.1 Exposure Reporting

Counterparty exposures are independently monitored against limits 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 equivalent amount as well as identifying the major stock contributors underlying the exposures. Limit breaches are highlighted daily for follow-up action and also discussed on a weekly basis by the Financial Risk Committee. All new trading counterparties are subject to formal account opening procedures carried out by Compliance prior to any trading activity taking place. The creditworthiness of individual counterparties is 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.

5.2 Stress Tests

In order to assess the amount Numis could lose if its counterparties were to default on their contractual obligations, we use 2 daily stress tests.

5.2.1 Historical Simulation stress test

This is essentially the same methodology as the market risk stress test outlined in 4.1.1.2.1 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 2009 was £413k.

5.2.2 40/20 stress test

This stress test is the same methodology as the market risk stress test mentioned in 4.1.1.2.2 to give a "loss given default" figure by counterparty. These are then multiplied by an assumed set of probability of default figures (defined by counterparty category e.g. long-only fund, hedge fund, broker etc.) and aggregated to give the overall stress test exposure.

This is designed to mimic the most severe catastrophic movement in market prices and default probabilities, and is used internally as a Pillar 2 add-on in order to assess additional economic capital requirements. As at 31st December 2009, the credit risk stress test based on this methodology was £5,052k.

5.3 Capital Resource Requirements under Pillar 1

5.3.1 Non-Trading exposures

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

As at 31st December 2009, Numis' Credit Risk capital requirement was £7,645k. The following table shows the breakdown of this figure (figures in GBP 000's).

Asset	Value	Charge	Risk Weight	Requirement
Cash and cash equivalents	58,500	8%	20%	936
Prepayments and receivables @ 100%	548	8%	100%	44
Prepayments and receivables @ 20%	2,652	8%	20%	42
Loans and intercompany balances	69,420	8%	100%	5,555
Other assets	9,923	8%	100%	1,068
Total	**141,043**			**7,645**

5.3.2 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% 5-15 days, 50% 16-30 days, 75% 31-45 days 100% 46+ days). For stock borrowing, the value of securities received is subject to the appropriate haircut as defined in BIPRU 5.4 prior to the capital calculation.

As at 31st December 2009, the Counterparty Risk CRR was £22k, comprising of £7k from counterparty settlement risk and £15k from stock borrowing.

6 Operational Risk

Operational risk is the risk of loss arising from failures in internal processes, people or systems, or from external events. Some examples of operational risks and their mitigation are given in the table below.

Operational Risk	**Mitigation**
Reputational Damage	Strict control over new business and client take-on imposed by New Business Committee process and procedure Complaints procedure and reporting to NSL Board via monthly Compliance Report and PLC Board and Audit Committee Use of PR firm to review and analyse external media coverage and reporting of Numis' activities together with those of competitors Designated responsibility for PR matters at PLC executive level High degree of emphasis on employing experienced and professional staff across both front office and the support areas to ensure a minimum quality threshold - breaches of internal control procedures documented in a "breach register" and factored into the staff appraisal process Client satisfaction feedback mechanism in place
Quality of Execution	Emphasis on employing highly experienced staff in key operational and control roles Use of standard operating procedures Commitment to a culture of continuous improvement and ensuring that staff receive appropriate training Staff encouraged to acquire further, relevant professional qualifications as appropriate Appropriate civil liability insurance cover
Infrastructure failure/ Terrorist Events	Full BCP in place with alternative back-up site, IT and telecoms infrastructure Financial lines insurance cover and combined office insurance cover
Loss of Performance control	Daily reporting of firm's performance to senior management including all revenue streams, overall cost base, profit before tax, deal completion and financial performance measures and ratios Weekly reporting of deal pipeline and forecast current financial year results to senior management Weekly review of business performance and market environment by senior management Detailed financial analysis and reporting to NSL Board through monthly management accounts and routine board papers covering

	financial performance, risk exposures and breaches, compliance update, HR report and individual departmental updates Longer term value creation encourage by "ownership culture" evidenced by share incentive arrangements and the high proportion of director / staff share ownership - currently circa 45% of the issued share capital
Legal and regulatory risk	Emphasis on employing experienced compliance staff and providing external training to ensure that the firm remains up-to-date with industry requirements Head of Compliance sits on all primary Boards and committees with the exception of the PLC Board where is an invited attendee Provision of compliance training across the firm as appropriate to the business areas concerned All legal entity directors required to undertake training in their duties as directors under the Companies Act 2006 Reporting of compliance and legal issues monthly via Compliance Report to NSL Board Detailed Compliance procedure and process supported by clear program of systematic review and reporting Cost of regulatory investigations are insured, D&O insurance cover and civil liability insurance cover in place Use of standard operating procedures and language for engagements and contractual obligations Legal qualifications held by certain corporate finance staff Contract review by legally qualified staff within Compliance, independent of the Corporate Finance / Broking areas Use of highly regarded legal firms for external corporate advice
Retention of key staff	Compensation and remuneration matters considered by PLC Remuneration Committee comprising non-executive directors Use of various share award structures with differing vesting durations to incentivise staff, encourage staff retention and the longer term performance of the underlying business Monthly HR reporting to NSL Board of staffing numbers, monthly movements in headcount and pipeline of new recruits and/or planned exits Monitoring of all leavers with reporting of causal analysis Key man insurance in place

Fraudulent activity	Strict application of dual control over all external cash payments with authorisation by Finance Director or alternate in all cases Standard operating procedures in place for all core reconciliation processes coupled with independent review and sign-off by an appropriate senior member of staff All staff expense claims subject to policy guidelines and authorisation required by Department heads and Finance Director prior to payment Physical security and access controls applied according to each department and application as considered necessary Appropriate levels of insurance cover

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 2009, the operational risk capital charge was £9,192.