



Religare Hichens, Harrison plc and Subsidiaries

Group Pillar 3 Disclosure

1. Overview

1.1 Background

With the introduction of the Capital Requirements Directive ('CRD'), also known as Basel II, on 1 January 2007, the FSA has established three Pillars, the purpose of which is to determine the level of capital and its related disclosures required for regulated firms. Pillar 1 is the minimum capital requirement as prescribed by the rules of the FSA. For Pillar 2, the Group was required to carry out an Internal Capital Adequacy Assessment Process ('ICAAP') during the year. The purpose of the ICAAP is to assess the group's risks, how it intends to mitigate those risks and how much current and future capital is necessary having considered the relevant mitigating factors. Pillar 3 is designed to improve market discipline by requiring a firm to disclose certain details of their risks, capital and management objectives and policies.

1.2 Scope

RHH is wholly owned by Religare Enterprises Group, a diversified financial services group of India via a UK holding company, Religare Capital Markets (UK) Limited.

The RHH Group currently consists of the following subsidiaries:

Name	Country of Incorporation	Proportion of ownership interest	Reporting date	
London Wall Nominees Limited	Great Britain	100%	31 Dec 2009	Nominee
Blomfield Corporate Finance Limited	Great Britain	100%	31 March 2009	Trading
Blomfield Capital Limited	Great Britain	100%	31 Dec 2009	Dormant
Blomfield Investment Management Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens, Harrison (Asia) Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens, Harrison (Africa) Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens, Harrison (Middle East) Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens, Harrison (South America) Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens, Harrison (Ventures) Ltd	Great Britain	100%	31 Dec 2009	Nominee
African Bio Fuels Ltd	Great Britain	100%	31 Dec 2009	Dormant
Claridge House Services Ltd	Great Britain	100%	31 Dec 2009	Trading
Religare Hichens Harrison Inc	USA	100%	31 Dec 2009	Trading
Religare Hichens Harrison Pte Ltd	Singapore	100%	31 Dec 2009	Trading
Medserve (ME) UK Ltd	Great Britain	100%	31 Dec 2009	Trading
Blamire Ltd	Isle of Man	100%	31 Dec 2009	Trading
Hichens Harrison Derivatives LLP	Great Britain	51%	31 Dec 2009	Trading
ARM Corporate Finance Ltd	Great Britain	100%	31 Dec 2009	Dormant
Blomfield Street Securities Ltd	Great Britain	100%	31 Dec 2009	Dormant
Charterpace Ltd	Great Britain	39%	31 Dec 2009	Dormant
HDIM Ltd	Great Britain	100%	31 Dec 2009	Dormant
Religare Hichens Harrison Pty Ltd	South Africa	100%	31 March 2009	Ceased trading
HH1803.com Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens Harrison (North America) Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens Investment Management Ltd	Great Britain	100%	31 Dec 2009	Dormant
Vivaldi Corporate Finance Ltd	Great Britain	100%	31 Dec 2009	Dormant
Hichens Harrison (Far East) Pte Ltd	Singapore	100%	31 Dec 2009	Dormant
Hichens Harrison Commodities Ltd	Great Britain	100%	31 Dec 2009	Dormant
Asian Bio Fuels Ltd	Great Britain	100%	31 Dec 2009	Dormant
African Wireless Ltd	Great Britain	100%	31 Dec 2009	Dormant
African Communication Services (Proprietary) Ltd	South Africa	100%	31 Dec 2009	Dormant
Hichens Harrison Global Traders Consultoria Internacional Ltd	Brazil	99%	31 Dec 2009	Trading
South American Wireless Ltd	Great Britain	100%	31 Dec 2009	Dormant
Student Accommodation Company (India) Ltd	Great Britain	100%	31 Dec 2009	Dormant

London Wall Nominees Limited act as a nominee investment holding company for the clients of Hichens, Harrison & Co Plc but does not trade. All the other companies annotated as dormant above have carried on no activities during the year and have made neither profit or loss. Hichens, Harrison (Ventures) Limited acts as a holding company for all the investments acquired by the group mainly as a result of making strategic investments in clients or taking shares in lieu of fees. Hichens, Harrison (Ventures) Limited and all the companies annotated as “trading” in the above list are included in the consolidated financial statements.

The ICAAP has therefore been prepared on a consolidated basis including the activities and risks of all such group companies.

There are no current or foreseen material restrictions or legal impediments to the movement of capital between the legal entities or repayment of liabilities among the parent and its subsidiary undertakings apart from the requirement to ensure there is adequate capital in each of the regulated entities to meet its regulatory requirements.

1.3 Basis of Disclosures

This policy document deals with the requirements of Pillar 3 and the information provided here is in accordance with the rules in the FSA’s ‘Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU)’ Chapter 11 – Disclosure (Pillar 3). All figures within this document are correct as at 31 March 2009.

1.4 Frequency

The Group will publish the disclosures at least on an annual basis. Future disclosures will be as at the Group’s Accounting Reference Date, that is, as at 31 March each year and will be published at around the same time as the annual financial statements are approved by the Group Board.

1.5 Media and location of publication

The disclosures will be published on the RHH plc website: www.religarehh.com.

1.6 Verification

The information contained in this document has not been audited by the Group’s external auditors unless they are deemed to be equivalent to those made under accounting requirements, therefore they do not constitute financial statements and should not be relied upon in making judgements about the Group. These disclosures explain how the Board have calculated certain capital requirements and information about risk management.

2. Risk management objectives and policies

2.1 Risk Management Framework

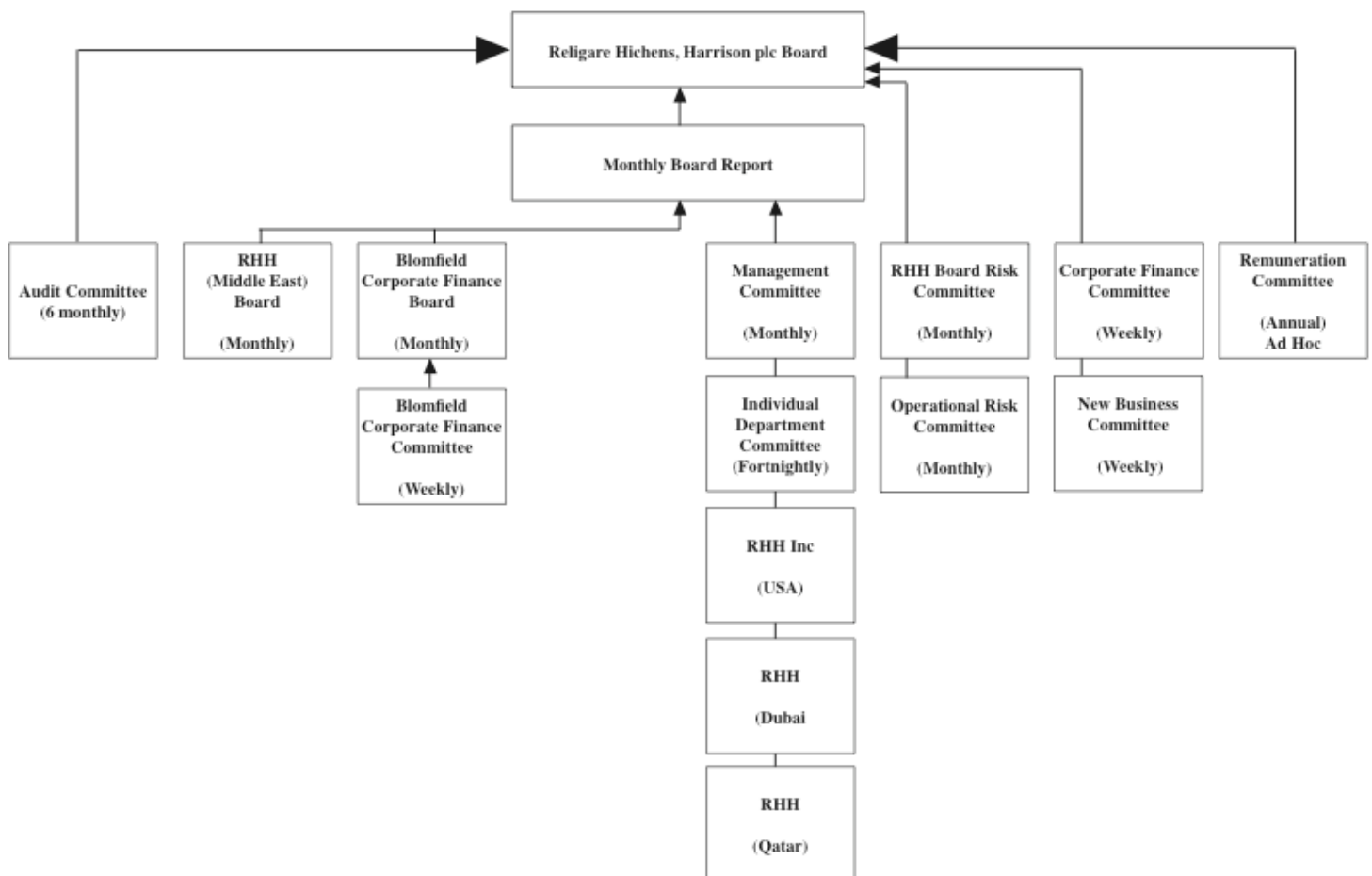
The objective of creating a risk management framework is to identify, measure, monitor, manage and report risk in a consistent manner on a timely basis. To achieve this, the Group has a number of risk management processes, these being:

The Board and its sub-committees

The Board is made up of four executive directors and two non-executive directors. It is supported by various sub-committees as shown in the committee structure below:

The sub-committees collectively assist the Board in discharging its responsibilities on corporate governance. The Board and its sub-committees hold meetings as often as it is necessary for it to carry out its duties.

Religare Hichens, Harrison plc -
Committee Map – June 2009



Terms of Reference for Board and sub-committees

The Board and its supporting committees have approved Terms of Reference detailing the individual responsibilities they have towards risk management.

Non-executive directors

The Group has two non-executive directors. Their role is to challenge and contribute to the development of strategy, scrutinise the performance of management in meeting objectives and strengthen the corporate governance structure of the Group.

Definitive reporting lines and roles and responsibilities

The Group has a clear structure of reporting lines and each employee is aware of their roles and responsibilities within the organisation.

Overview of Risk Assessment and Controls

The Group articulates its appetite for risk and the controls in place through its Internal Capital Adequacy Assessment Process (ICAAP) document which has been adopted by the Group. The adequacy and appropriateness of the ICAAP are reviewed quarterly and on any material change in the nature of the business undertaken by the Group.

This section sets out the high level architecture in place to identify, assess and control credit, market and operational risk within the Group. The sections that follow show in more detail the strategies and processes for managing those individual risk areas, the scope and nature of risk reporting and measurement systems, the strategies and policies for hedging those risks and the processes for monitoring the ongoing effectiveness of the hedges and mitigants.

Since the acquisition of Hichens Harrison by Religare Enterprises Limited (REL), a leading integrated financial services group of India, the risk management framework of RHH has been significantly strengthened with:

- the involvement of the Group Risk function which provides real time risk analysis and evaluation
- development of risk registers owned by the business lines
- Regular risk metrics being made available to the Board of RHH
- Enhancement and expansion of terms of reference of the existing committee structure

The Board of RHH takes overall responsibility for setting the risk appetite of the Group and ensuring that appropriate systems and controls are in place to control and mitigate those risks. The overall risk management process is co-ordinated by the Vice President Finance and Operations together with the UK and International Compliance heads. Input is also taken from the activities of the Group Internal Audit function which conducts internal audits of the Group. The REL Group Risk function provides four staff dedicated to providing risk analysis support to the Group. These staff are overseen by the REL head of Risk Management who reports into the RHH Chief Financial Officer and Board.

Internally, Group line managers are responsible for reviewing their risk registers in regular departmental meetings. The firm's Contract for Differences business has a fortnightly Risk meeting with REL Risk, the RHH CFO and RHH Compliance. The Board has a separate Risk committee chaired by a non-executive director which meets on a monthly basis to consider the results of the monitoring of the firm's risk exposures

Other key risk controls include:

Business Continuity Plan

The Group has a group-wide Business Continuity Plan ('BCP') which describes the logistical plan for how the organization will recover and restore partially or completely interrupted critical function(s) within a predetermined time after a disaster or extended disruption. The current BCP gives clear and concise instructions during a disaster or disruption.

Compliance manual

The purpose of this manual is to provide guidance and set out certain principles, general practices, rules and procedures which provide the foundations for the proper conduct of business within the firm and, in some cases, reflect other applicable jurisdictions' legal and regulatory requirements. Each employee is given a Compliance induction and is advised of the location of the manual. Staff are required as part of their contract to familiarize themselves with, and adhere to, the Compliance manual and its associated procedures, as amended from time to time. Staff also receive training in areas of key regulatory sensitivity such as the prevention of financial crime, insider dealing and market abuse.

Monthly consolidated management accounts

Consolidated and entity-level management accounts are prepared each month. The consolidated management accounts are submitted to the Board members for review and discussion. They are also used to assess the capital adequacy of each entity and of the Group.

2.2 Risk Categories

The most significant risk types to which the Group is exposed are discussed below:

Credit Risk

Credit risk is defined as the risk of loss arising from a counterparty failing to meet their financial obligations or its failure to perform as agreed to the Group. The Group is primarily an agency broker therefore it is not exposed to credit risk in the normal course of business. Additionally, the group deals with MM scrips and settles in its own name in order to hedge client positions for the Contract for Difference (CfD) business, counterparty risk prevails in this situation though the quantum is minimal. The Group only uses deposit taking institutions with at least an 'A' credit rating for its cash deposits. Group has cash margin deposit with Pershing (Part of Bank of New York Mellon Corp S&P rating AA- stable), Cheveraux (part of Credit Agricole SA S&P Rating AA- stable), IG Markets (no credit rating as no public debt), JP Morgan S&P Rating A-1+.

Clients post margin against their trades and daily monitoring of the margin levels and principal positions is undertaken.

Market Risk

Which comprises equity risk, interest rate risk, foreign currency risk and commodity risk.

Interest rate risk

The Group is exposed to interest rate risk in that bank deposits and borrowings are on a floating rate basis. The Group does not have significant exposure to interest rate fluctuations on its balance sheet, thus this risk is accepted by the Group and is assessed annually as part of the ICAAP.

Foreign Currency risk

Foreign currency risk is made up of transactional risk and structural foreign exchange risk on overseas subsidiary entities. The Group does not take structural hedges and minimizes its transactional exposure by matching foreign currency income and expenditure where possible.

Equity Risk

The Group is an agency broker. On occasion in order to facilitate a client trade, a very small position might be held overnight but is cleared the next business day. The only positions held as principal are those used to hedge client CFDs and spread bets as set out under credit risk above.

Commodity risk

Commodity exposure wherever taken is hedged at group level and therefore RHH is not exposed to commodity risk.

Operational Risk

Business continuity plans are regularly tested. The company has BCP/DRP in place which will enable the firm to operate in case there is any contingency.

Process risk

Appropriateness of internal control systems are reviewed regularly and further there are well defined and documented process controls in place which are applied across various divisions in the company. Further the control processes are reviewed regularly in order to keep them updated at all point of time. Further the company has planned to roll out internal audit function from the parent company

People/key person risk

Presently the group has sufficient numbers of professionals in various divisions with expert knowledge & experience in this business. Adequate staff development program is undertaken regularly. Client relationships are spread with the objective of not having any one client linked to any one employee & emphasis is placed on the Company's/group capabilities/knowledge as a whole, rather than on a minimum number of qualifying employees. Recruitment of the right number of staff is done to ensure that adequate & timely service is provided to the client. As a HR policy good long term career growth plans are given to the employees to ensure low attrition. Long term client relationships are developed to reduce the risk of loss of clients to competitors.

Systems/infrastructure risk

Wherever we are using outsourced IT services the vendor is providing proper back up arrangements BCP/DRP for meeting any type of contingency. After the acquisition of HH by Religare, the group has now experienced resources in the field of IT within the group who would be supporting the IT team based in London & in future the company has plans to undertake all IT services in house.

External risk

The company has got requisite expertise in order to address the risk of direct or indirect loss resulting from events outside the Group's direct or indirect control or from events that impact on an external relationship.

Group risk/conflicts of interest

A conflict policy & inducement policy is already in place stating the governing rules on the subject in RHH. There is a mechanism of approval for taking new business from new business committee to monitor conflict. A public interest disclosure policy (whistle blowing) for our group is in place. Further it is ensured that various departments within the company work independent of each other, business & operation & control functions are headed & controlled by separate officials of the company & have separate KRAs.

Chinese walls restricting the flow of confidential and inside information within our group are physically maintained with secure rooms for various departments & business divisions. There is well defined client acquisition process being followed.

Legal/regulatory risk

The company has adequate compliance department functional which takes care to ensure all type of regulatory compliances.

The Company has designated Compliance officer who is responsible for keeping a regular track of the new laws, regulations, notifications, circulars and guidelines introduced by any regulatory body & any changes as applicable to the company are immediately complied with in the given time frame.

Trade processing risk

All the clients' trades are executed by experienced dealer, further immediately upon order execution an email is sent to the client confirming the client trade & in case any difference is reported by the client the same is immediately investigated & required action is taken for ensuring non repetition of such error. Further the company has taken professional indemnity insurance against any possible loss on this account.

Strategic risk

The company has got requisite expertise to handle any business environment change / strategic decision taken and can adopt & sustain in the new environment if becomes mandatory for the industry. Further the costs of any new developments are carefully planned & budgeted which is subject to the board approval. Close monitoring is done for implementation of business / development decisions.

Reputation risk

There are review processes in place to analyze & address the events causing reputation risk to the group.

3. Capital

3.1 Capital Resources

The Group has the following capital resources at 31 March 2009:

	£'000
Tier 1 Capital	
Total tier 1 capital before deductions	15523
<i>Deductions:</i> intangible assets and investment in own shares	5756
Total tier 1 capital/total capital after deductions	9767

The Group does not have any tier 2 and 3 capital resources.

3.2 Capital Planning

Monthly consolidated and entity-level management accounts are prepared and reviewed in detail by the Group management and subsequently discussed at the Board meetings. The Group's financial resources compared to its minimum capital requirements are also discussed at these meetings. Annual budgets for each entity are prepared and approved by the Group Board and these are tracked against the actual performances with significant deviations investigated. Results from the extensive stress testing on plausible events performed as part of the ICAAP concluded that the Group had sufficient capital to meet its regulatory resource requirements and also to support its current and foreseeable activities. As discussed above, there are no restrictions on management in regards to the transfer of capital in or out of businesses and in the jurisdictions that the Group operates in, apart from the need to hold the minimum regulatory capital in each regulated entity.

4. Regulatory Capital Requirements

This chapter describes the regulatory capital requirements of the Group. This is based on the Pillar 1 requirements of CRD. The regulatory capital requirements as at 31 March 2009 is as follows:

	£'000
Credit risk capital requirement	287
Market risk capital requirement	424
Operational risk capital requirement	1996
Counterparty risk capital requirement	95
Total capital requirements	2802

4.1 Credit risk

The Group applies the risk weights under the standardised approach to credit risk to calculate its risk weighted exposure amounts for each of its exposures.

4.2 Market risk

As discussed above the majority of the Group's operations are as an agency broker thus trading positions are not held in the normal course of business. The principal positions taken to hedge the CfD and spread betting business are not material and are monitored daily. Thus, the Group's market risk capital requirement is usually only foreign exchange risk.

4.3 Operational risk

The Group has adopted the Basic Indicator Approach to calculating the operational risk capital requirement as stipulated in the FSA handbook under BIPRU 6.3.

Non-Trading Book exposures in equities

The Group has non trading book exposure in equity as a result of our corporate finance business. These equities are marked to market regularly

Listed and marked to market

Exposures to interest rate risk in the non-trading book

The Group does not have exposure to interest rate risk in the non-trading book.

Securitisation

The Group does not undertake securitisation business and therefore has no exposure to securitisation risk.