



UNION BANCAIRE PRIVÉE

UBP SECURITIES (UK) LTD
CAPITAL REQUIREMENTS DIRECTIVE
PILLAR 3 DISCLOSURES

December 2009

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1. INTRODUCTION

UBP Securities (UK) Ltd is authorised and regulated by the Financial Services Authority (FSA). The FSA is responsible, in the United Kingdom, for the implementation of the 2006 Capital Requirements Directive of the European Union, which set up a new regulatory capital framework for the financial services industry. This new framework consists of three pillars:

- Pillar 1 specifies the minimum capital levels that the business is required to carry to cover the risks to its business;
- Pillar 2 shows the supervisory review process to be used by both the business and the FSA to determine whether additional capital should be maintained against any risks not adequately covered under Pillar 1;
- Pillar 3 specifies the disclosure requirements which a business is required to make with regard to its capital, risk exposures and risk assessment process.

The FSA regulations for the disclosures required under Pillar 3 are contained in the Prudential Sourcebook for Banks, Building Societies and investment Firms (BIPRU). These rules allow the business to exclude disclosures where the information is regarded as immaterial or confidential.

Disclosures in this document are made in compliance with BIPRU11.

2. BUSINESS STRUCTURE

The disclosures contained in this document relate to the business of UBP Securities (UK) Ltd.

UBP Securities (UK) Ltd is a 100% subsidiary of Union Bancaire Privée. Union Bancaire Privée was created in 1969 under the name of Compagnie de Banque et d'investissements CBI. Following a number of acquisitions, including TDB-American Express in 1990 it took the name of CBI-TDB Union Bancaire Privée. CBI-UBP International Ltd was retained from this time as the name of the subsidiary in London. Over the years as UBP expanded and opened a London Branch, CBI-UBP International Ltd trading activities migrated and it became what it is today, a matched principal broker in bonds. It undertakes this activity for the majority of clients of the UBP Group.

3. ACTIVITY

3.1 Group Activity

Union Bancaire Privée, based in Geneva, is one of the major Swiss asset management banks for both private and institutional clients. Union Bancaire Privée is one of Switzerland's leading and most strongly capitalised banks.

Built on a strong foundation of entrepreneurial vision and innovative drive, it draws on the top financial talents to achieve capital protection combined with returns.

Union Bancaire Privée offers advanced know-how in building and assembling absolute-return portfolios.

This approach, combined with a highly personalised service, has made Union Bancaire Privée one of the world's top-ranking privately-owned asset management banks, based on client assets. Strengthened by selective acquisitions and constant, robust growth.

Union Bancaire Privée has established an international presence through a network of subsidiaries, branches, and representative offices in over 20 locations.

Union Bancaire Privée’s international presence is illustrated on the world map as following:



3.2 UB Securities (UK) Ltd Activity

UBP Securities (UK) Ltd is a BIPRU €730K full scope investment firm. The list of its permitted activities is given in table 1 Permitted Activities. UBP Securities (UK) Ltd trading book is zero at the end of each day, UBP Securities (UK) LTD does not take foreign exchange position and does not lend out. All trades are executed with settlement conditions up to T+3 (within three working days) and after receiving the proceeds on the nostro account.

4. RISK MANAGEMENT

UBP Securities (UK) Ltd is risk averse. It does not take positions on its trading book. Over 99% of the trades are executed on delivery against payment basis. All UBP Securities (UK) Ltd clients are part of the UBP global structure. No lending positions are taken.

4.1 Control Oversight

As part of Union Bancaire Group, the risk management process is performed by UBP London and Geneva as follows:

Table 2 Control Oversight

Function	London	Geneva	Comment
Compliance Risk	Control and FSA Oversight	Oversight	UK Regulation has priority unless group position is more stringent
Operational Risk	Control	Oversight	Covered by London within Group Risk Framework
Legal Risk	Control	Oversight	Covered by London within Legal department
Financial Controlling	Control	Oversight	Management accounting and FSA reporting from London
Internal Audit	N/A	Control	Totally independent audit function under Swiss model
Credit Risk	Report	Control	UBP Securities (UK) Ltd does not lend

Stress testing has been undertaken by the Financial Department of UBP Securities (UK) Ltd. Capital Adequacy has been assessed by the UBP Securities (UK) Ltd Board, and this is reviewed and verified by UBP Group Risk Management.

5. RISKS ANALYSIS

The main risks covered by Capital Adequacy Requirement Pillar II, are listed below and their relevance to UBP Securities (UK) Ltd activity during the past period 2004-2009 and the stress testing for 5 year period 2010-2014 are discussed in detail.

5.1 Credit risk

The credit risk exposure of UBP Securities (UK) Ltd consists of Balance sheet exposures in non-trading book and Counterparty risk including Settlement risk.

UBP Securities (UK) Ltd does not have position on its trading book at the end of each day and in that respect it does not have credit risk exposure to the issuers of the bonds.

UBP Securities (UK) Ltd does not lend money and therefore it does not have credit risk exposure to any borrowers.

UBP Securities (UK) Ltd is not allowed to take loans, which means it does not have credit risk exposure to any lenders

Balance Sheet Exposures (non trading book)

Following the restrictions on its activity the counterparty risk for UBP Securities (UK) Ltd consists only of the exposure to Union Bancaire Privee (the parent) in the form of capital held on a current account. The risk is seen as negligible.

The standardised approach requires exposures with maturity less than three months, to unrated institutions in AAA rating countries as Switzerland to be allocated risk weight 20%. This is seen as very conservative in comparison with 0% risk weight to Head office exposures in EEA countries.

Counterparty Risk

The counterparty risk is part of the credit risk framework.

Counterparty risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

The counterparty risks to the brokers are also seen as negligible. UBP Securities (UK) Ltd does not have positions on its trading book and over 99% of the trades are executed via Euroclear. There is only limited settlement risk which is reviewed below.

Settlement risk

The settlement risk is part of the counterparty risk capital component.

Settlement risk is the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties.

UBP Securities (UK) Ltd does not hold positions in the trading book and all counterparty exposures are incurred in the ordinary course of settlement over five working days. Most trades settle within three business days. Over 99% of the trades are done via Euroclear. In that respect UBP Securities (UK) Ltd faces limited settlement risk.

Settlement risk is monitored on a daily basis by the Back Office of Union Bancaire Privée. The loss suffered due to incorrect settlement during the past five years has been negligible.

Pillar II Assessment on Credit Risk

The analysis of credit risk shows that for UBP Securities (UK) Ltd it consists mainly of settlement risk and exposure to suppliers and staff. In that respect the capital resources estimated as required are 5% of the fixed expenditure and 1% of the unsettled trades.

N	Credit risk capital requirements Pillar II	GBP '000
1	Fixed Expenditure	1 610
2	Capital required (5% of (1))	81
3	Unsettled trades	2 542
4	Capital required (1% of (3))	25
5	Credit risk capital requirements ((2) + (4))	106

Pillar I calculation of the credit risk variable capital requirements are shown in point 4.5 as GBP 134k.

The capital recourses as at 31.12.2009, as well as the previous 5 years (table 12) and the projected 5 years (point 3.5) , are consistently well above the credit risk requirements.

The stress testing reveals that at zero level of activity UBP Securities (UK) Ltd will be able to pay all its obligations when they fall due for a period of three years (chapter 5) .

5.2 Market risk

Market risk is the risk of losses arising from movements in the market prices of debt (interest rate related) and equity instruments in the trading book as well as foreign exchange and commodity instruments in the trading and banking book.

UBP Securities (UK) Ltd is not exposed to market risk because UBP Securities (UK) Ltd does not have outstanding positions in the trading book. UBP Securities (UK) Ltd is not allowed to take positions at any time.

5.3 Foreign currency risk

Foreign exchange risk or also called currency risk is a form of risk that arises from the change in price of one currency against another. The most popular currency risk mitigation technique is the hedging of the currency position.

UBP Securities (UK) Ltd does not take foreign exchange positions. However, there are marginal currency positions during each month caused by trades in foreign currency, generating income in foreign currency. At the end of every month the foreign currency income is transferred to GBP and all residual positions are cleared.

5.4 Operational risk

Operational risk is limited by the robust systems and controls. UBP Securities (UK) Ltd uses UBP Securities Fixed Income Order Management System (FINTOMS) which minimizes human error in trading function.

- It prevents traders from executing a trade from a wrong side – e.g. selling instead of buying
- It prevents traders from entering an incorrect nominal amount
- It links directly to the Bloomberg trading system - where traders have the facility to activate a control that compels the dealer to deal at the best price. The link to the Bloomberg system acts as an enquiry to three counterparts in the market and after trading. The three prices are displayed on the ticket that is produced by the system.
- The system matches the market trade with the order from the client. If a dealer has traded before receiving a client order and a misunderstanding occurs, a panel appears to warn that there is a discrepancy in details. This means that any errors are quickly discovered and are much easier to reverse without loss.

- When the market trade and the client order are matched, the completed ticket is immediately processed to the back office in Geneva for matching with TRAX and also for entering on the client account. The system therefore also minimises operational error in the back office.

According to the internal rules UBP Securities (UK) Ltd should execute any trade after receipt of the proceeds from the client on their account. UBP Securities (UK) Ltd is not allowed to take positions at any time. Trades are processed by Union Bancaire Privée Geneva Back Office and are reconciled by Union Bancaire Privée Geneva Back Office and the Reconciliation Department. As a second control the executed trades are reconciled by Union Bancaire Privée London branch on daily basis. Any discrepancies resulting from incorrect entry into the system or incorrect price are addressed immediately.

Pillar I calculation of Capital Resources for the operational risk, required as per the basic indicator approach, is given in 4.4.4.2. Operational Risk Capital Requirements. As at the end of 2009 the capital requirements were GBP 460,746.

It is assessed that the basic indicator approach require higher capital resources than the internal measures. Therefore the stress testing is performed using the basic indicator approach.

5.5 Liquidity risk

A conventional analysis of liquidity risk distinguishes between funding liquidity risk and market liquidity risk.

- Funding liquidity risk is the risk that the counterparties who provide the investment firm with short-term funding will withdraw or not roll over that funding. The maturity mismatch management is core element of funding liquidity risk.
- Market liquidity risk is the risk of a generalized disruption in asset markets that make normally-liquid assets illiquid. It affects tradable assets in the trading book. UBP Securities (UK) Ltd does not face that risk as all trades are executed on a back to back basis.

The adverse outcomes of liquidity risk are:

- the inability to pay liabilities as they fall due
- realizing a market loss as a result of the premature or force sale of assets to raise liquidity
- loss of business opportunity due to lack of liquidity

UBP Securities (UK) Ltd faces funding risk to the extent that it pays suppliers (utility bills) and personnel costs. During the past four year period under review, 2005-2009, UBP Securities (UK) Ltd was able to pay all obligations on time. UBP Securities (UK) Ltd realized profit on annual basis and kept sufficient own capital on deposit to meet all obligations when they fell due.

UBP Securities (UK) Ltd may face potential marginal liquidity risk linked to settlement risk in the event of default of one party to deliver the terms of a contract with another party at the time of settlement. This hasn't happened in the past 5 years. The main reason for that is because the settlement risk that may occur from trades executed on delivery against payment basis is extremely low. More than 99% of all trades are executed on delivery against payment bases. UBP Securities (UK) Ltd uses the TRAX system linked directly with Euroclear.

5.6 Insurance risk

UBP Securities (UK) Ltd has blanket bond insurance that is believed to cover all liabilities. UBP Securities (UK) Ltd is exposed to limited insurance risk in that respect.

5.7 Concentration risk

A risk concentration arises from any single exposure or Group of exposures to counterparties, Group of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity with the potential to produce losses large enough (relative to own capital, total assets, or overall risk level) to threaten a company's health or ability to maintain its core operations.

Following the restrictions on its activity, listed in point 1.6, UBP Securities (UK) Ltd does not face concentration risk.

5.9 Securitisation risk

Securitisation risk arises from creation of asset backed securities (debt instruments secured against specific assets or against specific cash flows. These are debt securities that are backed by a stream of cash flows. The borrower issues debt securities that are repaid using only these cash flows. Buyers of these securities have no further recourse against the borrower if the cash flows prove insufficient.

UBP Securities (UK) Ltd does not face securitisation risk as it does not perform securitisations.

5.10 Business risk

Business risk means any risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and/or its desired strategy.

UBP Securities (UK) Ltd executes bond trades only for clients of Union Bancaire Privée Group and in that respect it is subject to the risk that the clients may decide to cease or cut down on bond trades.

UBP Securities (UK) Ltd is covered by the Union Bancaire Privée business continuity plan in case of disaster and system failure.

5.10 Interest rate risk

The interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

As UBP Securities (UK) Ltd does not have positions on its trading book, the interest rate risk on a zero trading book is zero.

The net interest income consists only of interest earned on the capital, retained earnings and profits, held on current account with Union Bancaire Privée. The interest income in 2009 was 0.31% of the income on bonds.

5.11 Pension obligation risk

UBP Securities (UK) Ltd does not have pension obligation risk. UBP Securities (UK) Ltd has defined contribution scheme and uses external pension fund scheme for its employees – Scottish Equitable. The pension obligation risk is transferred from UBP Securities (UK) Ltd to Scottish Equitable.

6. CAPITAL RESOURCES

UBP Securities (UK) Ltd Capital Resources consist of tier one core capital resources represented by:

- permanent share capital equals GBP 3,000,000
- audited reserves and retained profit as at Dec 2009 equals GBP 3,342,376
- non-audited profit as at Dec 2009 equals GBP 748,152

As UBP Securities (UK) Ltd is a BIPRU €730K full scope investment firm without a consolidation waiver, it deducts material holdings (according to GENPRU 2 Annex 4 R).

The business has calculated its capital needs in accordance with the relevant FSA regulations for the base capital requirement, credit risk requirement and the variable capital requirement.

To calculate capital adequacy, UBP Securities (UK) Ltd uses the variable capital requirements as they are above the base capital requirement.

UBP Securities (UK) Ltd does not need additional capital funding. The funds will remain at a level above 50% of total liabilities at the end of the year. There is no intention for withdrawal of owners' funds. The policy of non dividend distribution is followed, which should ensure a strengthened capital position in future.

As at 31/12/2009

£ m

Core tier 1 Capital

Permanent Share Capital	3.00
Retained earnings and other reserves (2009 profits not incl) *	3.34
	6.34

Deductions from tier 1 Capital

0.00

Tier Capital after deductions

6.34

Total tier 1 Capital plus total tier 2 Capital

6.34

(Total Capital Resources)

Variable capital requirement for full scope BIPRU investment firms

0.60

Credit risk capital requirements under the standardised approach

0.13

Operational indicator approach

0.46

Base capital resources requirement

0.70

Surplus of own funds

5.74

* Non-audited profit 2009

0.75

7. OTHER DISCLOSURES

The approach of the business to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process, known as ICAAP.

7.1 Use of the ICAAP within the firm

UBP Securities (UK) Ltd is part of Union Bancaire Privée - one of the Switzerland's leading and most strongly capitalised banks. The capital adequacy management is performed on Group level following FINMA requirements and standards. The Group liquidity has been evaluated and stress tested by the Risk Management Department of Union Bancaire Privée Geneva.

To comply with FSA ICAAP requirements, a new procedure has been created and applied by UBP Securities (UK) Ltd. Following the financial turmoil in 2008 and 2009 the stress testing model of zero trade

activity was used as the worst case scenario to estimate the strength of the capital adequacy and the risk level of Capital resources investment.

The ICAAP is reviewed monthly by the Directors and Pillar I calculations are sent on a monthly basis to the Directors and Union Bancaire Privée Geneva. The management decisions are taken after estimating the impact on the capital adequacy. For example the decision for ceasing the advisory agreement with Jersey was taken after calculating the impact on the capital adequacy.

7.2 Credit Risk Mitigation Techniques

UBP Securities (UK) Ltd did not use credit risk mitigation techniques.

7.3 Material Holdings

UBP Securities (UK) Ltd as of 31.12.2009 does not have material holdings.