

TULLETT PREBON PLC

PILLAR 3 DISCLOSURES

1. Introduction

1.1 Background

The Capital Requirements Directive (“CRD”), which represents the European Union’s implementation of the Basel II Accord, established a regulatory framework consisting of three ‘Pillars’:

- Pillar 1 sets out the minimum capital required to meet a firm’s credit, market and operational risk.
- Pillar 2 requires a firm to undertake an Internal Capital Adequacy Assessment Process (“ICAAP”) to establish whether its Pillar I capital is adequate to cover all the risks faced by the firm, and if not, to calculate the additional capital required. The ICAAP is then subject to review by the FSA through the Supervisory Review and Evaluation Process.
- Pillar 3 requires a firm to disclose specific information concerning its risk management policies and procedures, and its regulatory capital position.

The CRD has been implemented in to UK law through the FSA Handbook, specifically the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Groups (“BIPRU”).

BIPRU 11 set out the provisions governing Pillar 3 disclosures, and the purpose of this document is to enable Tullett Prebon plc and its subsidiaries (“the Group”) to meet the requirements contained therein.

1.2 Disclosure Policy

In accordance with BIPRU 11.3.3 the Group has adopted a formal disclosure policy to comply with the disclosure requirements set out in BIPRU 11, and has policies for assessing the appropriateness of the disclosures, including their verification and frequency.

Under BIPRU 11.3.5, a Group may omit one or more of the required disclosures if the information is not material, that is that the information would not be likely to change or influence the decision of a user relying on that information for the purposes of making an economic decision. No disclosures have been omitted on these grounds.

Under BIPRU 11.3.6 a Group may omit one or more of the required disclosures if they would require the disclosure of any information regarded as proprietary or confidential, that is information which would, respectively, undermine a competitive position or breach an obligation of confidence between the Group and its customers. No disclosures have been omitted on these grounds.

In accordance with BIPRU 11.3.8 and BIPRU 11.3.10, the Group will publish this disclosure at least annually on the Group’s website.

These disclosures have been approved by the Tullett Prebon plc Board.

2 Scope and Application of the CRD Requirements

2.1 Business Overview

The Group is an interdealer broker, operating as an intermediary in the financial markets to facilitate the trading activity of its customers, in particular commercial and investment banks. The business covers the following major product groups: Treasury Products, Interest Rate Derivatives, Fixed Income, Equities and Energy.

Supporting its voice broking activity, the Group provides customers with access to electronic broking platforms for an increasing range of products. In addition to its brokerage services, Tullett Prebon offers a variety of market information services through its market data division, Tullett Prebon Information, which provides real-time price information to data providers such as Reuters, Bloomberg and other third parties.

The Group's operating subsidiaries consist mainly of broking subsidiaries, which provide brokerage services on either a Name Give-Up, Matched Principal or exchange traded 'give-up' basis (the latter referring to trades executed under an International Uniform Brokerage Execution Agreement). The Group operates its market information business through separate subsidiaries.

2.2 Consolidated Supervision

All of the Group's broking subsidiaries, across all the jurisdictions in which the group operates, are categorised as either Limited Activity Firms (for subsidiaries that undertake any matched principal or exchange traded 'give-up' business) or Limited Licence Firms (for subsidiaries that undertake only Name Give-Up business), as defined in BIPRU 1.1.11 and BIPRU 1.1.12 respectively. The market information subsidiaries, along with the service and holding companies within the Group, fall outside the scope of BIPRU (on a solo basis) on the basis that they do not constitute CAD Investment Firms (as defined in BIPRU 1.1.14).

On the basis of the Limited Activity / Limited Licence status of its broking subsidiaries (and on the basis that it meets the other requirements set out in BIPRU 8.4.4), the Group applied for and received a renewal of its waiver from consolidated supervision, which is valid from 7 June 2011 until 6 June 2016. Under the terms of the waiver, the Group is obliged to undertake the 'Financial Holding Company' test for the purposes of calculating the Group's regulatory capital position, as set out in BIPRU 8.4.11. The calculation of the Capital Resources Requirement under the Financial Holding Company test compares the Capital Resources of Tullett Prebon plc with the Capital Resources Requirement of all its subsidiaries.

All disclosures made in this document are based on the 'Financial Holding Company' test calculations as of 31 December 2011.

2.3 Solo Regulation

The group has three broking subsidiaries in the UK that are FSA regulated on a 'solo' basis as BIPRU Limited Activity Firms under BIPRU 1.1.17:

- Tullett Prebon (Europe) Limited
- Tullett Prebon (Securities) Limited
- Tullett Prebon (Equities) Limited*

*This entity transferred its business to Tullett Prebon (Europe) Limited on 7 February 2010 and is now in the process of cancelling its regulatory permissions.

The Capital Resources and Capital Resources Requirements of Tullett Prebon (Europe) Limited and Tullett Prebon (Securities) Limited are set out in Appendices A and B respectively.

3 Risk Management Governance

Introduction

Risk management is embedded throughout the business, with the overall risk appetite and risk management strategy being approved by the Board, and then propagated down throughout the business as appropriate. The principal elements of the Group's risk management governance are set out below.

The systems of internal control operated by the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board

The Board is responsible for setting the Group's risk appetite, ensuring that it has an appropriate and effective risk management framework, and for monitoring the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Group. The Board is also responsible for ensuring that the Group maintains sufficient capital and liquidity resources, both to meet its regulatory capital and liquidity requirements and to support its growth and strategic objectives.

The Board is responsible for approving the Group Risk Assessment Framework, which the Group uses to identify and assess the risks to which the Group is exposed, and the Group Risk Management Principles and Policies document which sets out the principles and policies adopted by the Board to manage the risks identified. The Board is also responsible for approving the Group's Internal Capital Adequacy Assessment Process document ("ICAAP") in which the Group documents its assessment of the adequacy of its capital and liquidity resources, in accordance with FSA requirements.

Group Treasury and Risk Committee

The Group Treasury and Risk Committee monitors the Group's risk exposure against the agreed risk appetite. The members of the Group Treasury and Risk Committee are the Chief Executive, who acts as chairman, the Finance Director and the Group Treasurer and Head of Group Risk Control. The minutes of the Group Treasury and Risk Committee are circulated to the Board.

Executive Management

Risk management and the operation of the internal control systems within the Group are primarily the responsibility of the executive directors and senior management. These individuals are permitted commercial independence and flexibility within parameters agreed by the Board to ensure that risks are clearly owned and managed on a day to day basis and that systems of control operate effectively.

Under the overall supervision of the Board and the Chief Executive, the management team continues to implement their business development plans and monitor operational projects. The executive directors monitor activities on a daily basis and ensure that appropriate controls are exercised over the Group's operations. The Board considers the monthly management accounts, budgets and plans and discusses any issues arising.

Group Risk Control

The Group Risk Control function is responsible for developing policies and monitoring mechanisms which ensure that the Group operates in accordance with the risk appetite set by the Board and for maintaining the Group Risk Management Principles and Policies document. The Group Risk Control function also provides daily and monthly reports to senior management which are reviewed by the Group Treasury and Risk Committee. The Group Treasurer and Head of Risk Control reports to the Finance Director, and has direct access to, and dialogue with, the Chairman of the Audit Committee.

Compliance

The Group's lead regulator is the FSA. The Group's broking subsidiaries are categorised as either Limited Activity Firms (for subsidiaries that undertake any Matched Principal or exchange traded 'give-up' business) or Limited Licence Firms (for subsidiaries that undertake only Name Give-Up business).

The Group's Compliance Departments monitor compliance with the various regulatory requirements to which the Group is subject, including those imposed by the UK regulatory regime and also those imposed by the regulatory framework of the other jurisdictions in which the Group operates. The compliance officers are in regular contact with the executive directors and compliance reports are made to the Board on a regular basis.

Credit Risk Management

The Group's Credit departments are responsible for monitoring the creditworthiness of the Group's counterparties and for the proactive monitoring of counterparty credit exposure against pre-determined limits set by the relevant regional Credit committee, as well as for providing senior management and the other control functions with timely and accurate reporting of the Group's credit exposure.

Finance

The Group's regional Finance departments are responsible for implementing and monitoring the relevant financial controls, and for providing management with timely and accurate reporting of financial performance against budget and other measures.

Internal Audit

PricewaterhouseCoopers were appointed to act as the Group's internal auditor in December 2007, following an extensive review of internal audit arrangements by the Audit Committee.

The objectives of Internal Audit are to assess the effectiveness of the Group's risk management, internal controls and governance process; whether operational and financial controls are appropriate and consistently applied; the effectiveness of internal controls for the safeguarding of assets; the reliability and integrity of management information; and the adequacy of processes to ensure compliance with applicable laws and regulations.

Internal Audit work during 2011 covered the full 'audit universe' within the Group at different levels of intensity based upon the internal audit plan agreed with the Audit Committee in December 2010. The plan was developed reflecting the results of a risk assessment exercise.

The findings of all internal audits undertaken are reported to the Audit Committee, and actions taken by management in response to the findings are tracked and reported to the Audit Committee. The Audit Committee approved the internal audit plan for 2012 at its December 2011 meeting.

4 Risk Management Principles and Policies

Risk Appetite

Risk appetite is defined as the level of risk the Group is prepared to accept. The Group's risk appetite is set by the Board as part of its determination of the business strategy.

The Board has set a low risk appetite, in accordance with which the Group does not actively seek risk in order to generate a return but is willing to accept a limited amount of risk as a consequence of its broking activities, principally counterparty credit risk and operational risk. This is reflected in the business model adopted by the Group whereby it acts only as an intermediary in the financial markets and does not trade for its own account.

Risk Assessment Framework

The Group identifies and assesses risk through the Group's Risk Assessment Framework, which is approved by the Board.

The Risk Assessment Framework identifies risks within eight risk categories: Market Risk, Credit Risk, Operational Risk, Strategic and Business Risk, Governance Risk, Regulatory, Legal and Human Resources Risk, Reputational Risk and Financial Risk. The risks within each area are analysed, mitigating factors assessed, and relevant controls identified. The risks are then graded for their expected severity and probability, and assigned a risk rating. Action is taken by the Board to manage the key risks, as appropriate, to safeguard the Group and the interests of its shareholders.

The Risk Assessment Framework is regularly updated and is reviewed at least twice each year by the Board, with particular focus on high priority risks. The Risk Assessment Framework is used to identify the risks to be considered in the Group's ICAAP and to determine the scope of the internal audit plan, as well as determining the frequency and content of the ongoing risk reporting provided by the Group Risk Control function.

Group Risk Management Principles and Policies

The Group Risk Management Principles and Policies document sets out the principles and policies adopted by the Board to manage the various risks to which the Group is exposed, as identified in the Risk Assessment Framework, and allocates the responsibility for implementing each policy to designated members of senior management.

ICAAP

The Board is responsible for approving the Group's ICAAP, as required by the FSA. The Group is required to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

The ICAAP formally documents the assessment as to whether the Group's capital and liquidity resources are sufficient to cover the risks identified in the Risk Assessment Framework, and incorporates the results of the liquidity and capital resources stress tests undertaken in accordance with FSA requirements. The ICAAP documentation is regularly updated and formally approved by the Board at least annually.

Risk Reporting

The embedded risk management processes ensure that the Group Treasury and Risk Committee, executive directors and senior management receive appropriate information and exception reports to comply with the Group's risk management principles and policies, and to identify any new risks or exposures that may arise. These include reports detailing the current status of existing controls, audits, loss events, and any required action plans to remedy any identified shortcomings in the control environment.

5 Risk Profile

The Group's Risk Assessment Framework categorises the risks facing the Group into eight categories: Market Risk, Credit Risk, Operational Risk, Strategic and Business Risk, Governance Risk, Regulatory, Legal and HR Risk, Reputational Risk and Financial Risk.

1. Market Risk

Market risk is the vulnerability of the Group to movements in the value of financial instruments. The Group does not take trading risk and does not hold proprietary trading positions. Consequently, the Group is exposed to market risk only in relation to incidental positions in financial instruments arising as a result of the Group's failure to match clients' orders precisely. Such positions are valued and measured from trade date on a daily

mark-to-market basis.

The Group's risk management principles and policies reduce the likelihood of such trade mismatches and, in the event that they arise, the Group's policy is to close out such balances immediately. All market risk arising across the Group is identified and monitored on a daily basis.

2. Credit Risk

The credit risk faced by the Group consists of counterparty credit risk (as opposed to issuer risk), and principally arises from the following:

- Pre-settlement risk arising from Matched Principal broking;
- Settlement risk arising from Matched Principal broking;
- Cash deposits held at banks and money market instruments; and
- Name Give-Up brokerage receivables.

In addition to counterparty risk, the Group is also exposed to concentration risk in the level of exposure to counterparties, representing the aggregate of the exposures arising from Name Give-Up brokerage receivables, unsettled Matched Principal transactions and cash on deposit.

Pre-settlement risk arises in the Matched Principal broking business in which Group subsidiaries interpose themselves as principal to two (or more) contracting parties to a Matched Principal transaction and as a result the Group is at risk of loss should one of the parties to a transaction default on its obligations prior to settlement date. In the event of default, the Group would have to replace the defaulted contract in the market. This is a contingent risk in that the Group will only suffer loss if the market price of the securities has moved adversely to the original trade price.

Counterparty exposures are kept under constant review and the Group takes steps to reduce counterparty risk where market conditions require. Particular attention is paid to more illiquid markets where the price movement is more volatile, such as broking in GDR, ADR and emerging markets instruments.

The Group is also exposed to short term pre-settlement risk where it acts as an executing broker on an exchange, during the period between the execution of the trade and the client claiming the trade. This exposure is minimal as under the terms of the 'give-up' agreements the Group has in place with its clients, trades must be claimed by the end of trade day. Once the trade has been claimed, the Group's only exposure to the client is for the invoiced receivables.

Settlement risk is the risk that on settlement date a counterparty defaults on its contractual obligation to make payment for a securities transaction after the corresponding value has been paid away by the Group. Unlike pre-settlement risk, the exposure here is to the full principal value of the transaction.

In practice the Group is not exposed to this risk as settlement is almost invariably effected on a 'Delivery-versus-Payment' ('DvP') basis. 'Free of payment deliveries' (where an immediate exposure arises due to the Group's settling its side of the transaction without simultaneous receipt of the countervalue) occur very infrequently and only under the application of stringent controls.

Cash deposits – The Group is exposed to counterparty credit risk in respect of cash deposits held with financial institutions. The vast majority of the Group's cash deposits are held with highly rated clearing banks and settlement organisations.

As with trading counterparties, cash deposit counterparty exposures and limits are kept under review and steps are taken to reduce counterparty risk where market conditions require.

Name Give-Up brokerage receivables – The majority of transactions brokered by the Group are on a Name Give-Up basis, where the Group acts as agent in arranging the trade and is not a counterparty to the transaction.

Whilst the Group does not suffer any exposure in relation to the underlying instrument brokered (given that the Group is not a principal to the trade), it is exposed to the risk that the client fails to pay the brokerage it is charged. Receivables arising from Name Give-Up brokerage are closely monitored by senior management.

Concentration risk – The possibility of concentration risk exists in the level of exposure to counterparties. The Group controls its credit exposure to counterparties and groups of counterparties through the application of a system of counterparty credit limits (based on the mark-to-market exposure for Matched Principal trades, outstanding brokerage receivables for Name Give-Up trades, and amount on deposit for cash deposit exposure).

3. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people activities, systems or external events. Operational risk covers a wide and diverse range of risk types, and the overall objective of the Group's approach to operational risk management is not to attempt to avoid all potential risks, but to proactively identify and assess risks and risk situations in order to manage them in an efficient and informed manner. Examples of operational risk include:

- IT systems failures, breakdown in security or loss of data integrity;
- Failure or disruption of a critical business process, through internal or external error or event;
- Failure or withdrawal of settlement and clearing systems, errors in instructions;
- Events preventing access to premises, telecommunications failures or loss of power supply which interrupt business activities; and
- Broker errors.

Operational risk is managed through a combination of effective, relevant and proportionate controls. The policy of devolved responsibility within the Group places the emphasis for the management of operational risks on the senior management of each business unit.

4. Strategic and Business Risk

The Group operates in an environment characterised by intense competition, rapid technological change and a continually evolving regulatory framework. Failure to adapt to changing market dynamics, customer requirements or the way OTC markets and their participants are regulated constitutes a significant long term risk. The Group has identified three principal categories of strategic and business risk.

- Direct Regulatory Risk
- Commercial Risk
- Technology Risk

Direct Regulatory risk – This is the risk of new regulations, such as those currently being drafted in the EU and US in respect of OTC derivative market reforms, imposing a fundamental change to the structure or activity of financial markets, resulting in a reduced role for IDBs.

In order to mitigate this risk, the Group maintains active dialogues with regulators and other competent authorities responsible for the drafting and implementation of relevant regulatory reforms, intended to ensure that any changes to the regulation and operation of OTC markets achieve their stated objectives and avoid unintended negative consequences.

Commercial risk – The Group is exposed to the risk of a fundamental change to the commercial environment, whether market driven or due to the impact on clients of changes to the regulatory environment.

Specific issues could include a potential reduction in trading volumes resulting from regulatory reforms, such as the proposed restriction on proprietary trading to be imposed on certain financial institutions under the Dodd Frank Wall Street Reform and Consumer Protection Act (through the so called "Volcker Rule") or the increased capital requirements to be imposed under the Basel III Accord. Alternatively, a significant deterioration in the economic conditions of a country or region, such as that currently faced in the Eurozone, could also lead to a reduction in trading activity and a consequential reduction in the Group's revenue.

The Group's strategies for managing and mitigating its commercial risk include geographic and product diversification.

Technology risk – This is the risk that the Group is unable to respond to market demand for electronic broking solutions and loses market share as a result. The Group seeks to address this risk through continued development and enhancement of its electronic broking capability, to ensure that it can offer a competitive solution for all major asset classes.

5. Governance Risk

Governance risk is the risk of loss or damage to the business arising as a result of a failure of management structures or processes. This includes failure to adhere to applicable corporate governance requirements (such as those imposed by the UK Corporate Governance Code), a failure to ensure adequate succession to key management positions, or the inappropriate use of authority and influence by current or former senior members of staff.

The risk of accounting error or fraud is mitigated by the strong control environment which exists within the Group, in particular the involvement of the Audit Committee, the Internal Audit function and the Group Treasury and Risk Committee. Succession planning within the Group is overseen by the Board.

6. Regulatory, Legal and Human Resource Risk

This risk concerns the potential loss of value due to regulatory enforcement action (such as for breaches of conduct of business requirements or market abuse provisions); the possible costs and penalties associated with litigation; and the possibility of a failure to retain and motivate key members of staff. The Group also faces the risk that changes in applicable laws and regulations could have a serious adverse impact on the business.

The Group's lead regulator is the FSA, but the Group is also subject to the requirements imposed by the regulatory framework of the other jurisdictions in which the Group operates. The Group's compliance officers monitor compliance with applicable regulations and report regularly to the Board. The Group's legal department oversees contracts entered into by Group companies, and manages litigation which arises from time to time. Salaries, bonuses and other benefits are designed to be competitive and the Group's HR function monitors staff turnover on an ongoing basis.

7. Reputational Risk

Reputational risk is the risk that the Group's ability to do business might be damaged as a result of its reputation being tarnished. Clients rely on the Group's integrity and probity. The Group has policies and procedures in place to manage this risk to the extent possible, which include conduct of business rules, and procedures for employee hiring and the taking on of new business.

8. Financial Risk

The nature and scope of the Group's operations mean that it is exposed to a number of financial risks, principally liquidity risk (including the risk of being required to fund margin calls and failed settlements), interest rate risk, currency risk, taxation risks, and pension obligation risk.

Liquidity risk – The Group seeks to ensure that it has access to an appropriate level of cash, other forms of marketable securities or funding to enable it to finance its ongoing operations on cost effective terms. Cash and cash equivalent balances are held with the primary objective of capital security and availability, with a secondary objective of generating returns. Funding requirements are monitored by the Group Risk and Treasury Committee.

The Group is exposed to potential margin calls from clearing houses and correspondent clearers, both in the UK and US. Following a major project to mitigate its exposure to margin calls completed in 2009, the Group has not been subjected to any significant margin call requirements. However, the Group remains alert to the risk of large margin calls in the future. This includes undertaking a detailed assessment of the potential margin call exposure for all new business activity which will be cleared through a clearing house, such as that undertaken for the Group's new LME business which commenced in January 2011.

As a normal part of its operations, the Group faces liquidity risk through the risk of being required to fund transactions that fail to settle on the due date. From a risk perspective, the most problematic scenario concerns 'fail to deliver' transactions, where the business has received a security from the selling counterparty (and has paid cash in settlement of the same) but is unable to effect onward delivery of the security to the buying counterparty.

Such settlement 'fails' give rise to a funding requirement, namely the cost of funding the security which we have 'failed to deliver' until such time as the delivery leg is finally settled and we have received the associated cash.

The Group has addressed this funding risk by arranging overdraft facilities to cover any 'failed to deliver' trades, either with the relevant settlement agent/depository or with a clearing bank. Under such arrangements, the facility provider will fund the value of any 'failed to deliver' trades until delivery of the security is effected. Certain facility providers require collateral (such as a cash deposit or parent company guarantee) to protect them from any adverse mark-to-market movement, and some also charge a funding fee for providing the facility.

In the event of a liquidity issue arising, the firm has recourse to existing global cash resources, after which it could draw down on a £115m committed revolving credit line as additional contingency funding. This facility remained undrawn throughout 2011.

Interest rate risk – The Group is exposed to interest rate risk on its cash deposits and on its borrowings under bank facilities. The Eurobond debt pays fixed sterling interest. Cash deposits are typically held at maturities of less than three months, and the sterling interest rate exposure is partially hedged by rolling sterling term loans under the bank facility for similar short term periods.

The Group's Treasury and Risk Committee periodically considers the Group's exposure to interest rate volatility.

Currency risk – The Group trades in a number of currencies around the world, but reports its results in sterling. The Group therefore has translation exposure to foreign currency exchange rate movements in these currencies, principally the US dollar and the Euro, and transaction exposure within individual operations which undertake transactions in one currency and report in another. The Group continues to monitor its currency exposure, particularly in relation to current developments within the Eurozone.

Taxation risk is the risk of financial loss or misstatement as a result of non-compliance with regulations relating to direct, indirect or employee taxation. The Group employs experienced qualified staff in key jurisdictions to manage this risk and in addition uses professional advisers, as appropriate.

Pension obligation risk is the risk that the Group is required, in the short and medium term, to fund a deficit in any of the Group's defined benefit pension schemes.

6 Capital Resources

In accordance with BIPRU 8.4.14, the Capital Resources of the group are determined by the Financial Holding Company calculation. This calculation is based on the balance sheet of Tullett Prebon plc, the holding company for the Group.

The Group's capital resources comprises only Tier 1 capital and as of 31 December 2011 and 31 December 2010 consisted of:

£m	31 Dec 2011	31 Dec 2010
Called-up Share Capital	53.8	53.8
Share Premium	9.9	9.9
Own Shares	(0.1)	(0.1)
Other Reserves	7.7	5.3
Profit and Loss Account	788.8	652.3
Total Shareholders' Funds	860.1	721.2

7 Capital Resources Requirement

7.1 Credit Risk Capital Requirement

The Credit Risk Capital Requirement ("CRCR") consists of three elements and is calculated as follows:

7.1.1 Credit Risk Capital Component ("CRCC")

Given the nature of its business acting as Limited Activity and Limited Licence firms, in calculating the appropriate CRCC under BIPRU 3.1.5, the Group has adopted the simplified approach to calculating risk weights in accordance with BIPRU 3.5.5.

In accordance with this rule, a capital charge is taken to support the Group's exposure to outstanding Name Give-Up brokerage and cash deposits. In addition, the Group also includes within its CRCC calculation, any other 'non-trading book exposures' falling within BIPRU 3.1.6. These include:

- Clearing and settlement guarantees
- Tangible and intangible assets;
- Other receivables, prepayments and accrued income.

7.1.2 Counterparty Risk Capital Component (CPCC)

The Group's Matched Principal activity gives rise to pre-settlement risk. Capital to support this pre-settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with BIPRU 14.3.5.

Number of working days after due settlement date	Capital Required (%)
5 — 15	8
16 — 30	50
31 — 45	75
46 or more	100

Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

7.1.3 Concentration Risk Capital Component (“CONC”)

Capital to support concentration risk is calculated in accordance with BIPRU 10.5.16.

7.1.4 Total CRCR

Applying the above rules, the CRCR for December 2011 and December 2010 was:

£m	31 Dec 2011	31 Dec 2010
CRCC	94.2	107.6
CPCC	0.5	5.2
CONC	-	-
Total CRCR	94.7	112.8

7.2 Market Risk Capital Requirement

The Group’s ‘trading book’ arises only where one of the Group’s Limited Activity subsidiaries (which broker trades on a Matched Principal basis) has failed to match clients’ orders precisely. Such positions are marked-to-market on a daily basis and a Position Risk Requirement (“PRR”) calculated in accordance with BIPRU 7.1.3(1). The Group also calculates a PRR on its ‘non-trading book’ exposures, as required under BIPRU 7.1.3(2).

The Group’s total Market Risk Capital Requirement (“MRCR”), consisting of both the ‘trading book’ and ‘non-trading book’ PRRs, for 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
Trading Book PRR	-	-
Non-Trading Book PRR	21.5	31.3
Total MRCR	21.5	31.3

7.3 Fixed Overhead Requirement

Given the classification of the Group's broking subsidiaries as either Limited Activity or Limited Licence, the Group is exempted from the requirement to calculate an Operational Risk Capital Requirement under BIPRU 6. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with GENPRU 2.1.53.

The Group's Fixed Overhead Requirement as at 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
FOH	118.7	116.0

7.4 Pillar 2

As an FSA regulated group, the Group is obliged to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due (as per GENPRU 1.2.26R – "the Overall Financial Adequacy Rule").

It is also required to have in place sound, effective and complete processes, strategies and systems to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources that it considers adequate to: (i) comply with the Overall Financial Adequacy Rule; (ii) provide sufficient cover for the risks to which it is or might be exposed; and (iii) meet its future Capital Resources Requirements (GENPRU 1.2.30 – "the Overall Pillar 2 Rule").

The process whereby a firm assesses and formally documents the adequacy of its capital and liquidity resources and its compliance with the Overall Pillar 2 Rule is known as the Internal Capital Adequacy Assessment Process ("ICAAP").

The Board is responsible for reviewing and approving the Group's ICAAP, at least annually, and the latest Group ICAAP was approved on 22 September 2011.

8 Capital Adequacy

The Financial Holding Company Test for 31 December 2011 and 31 December 2010 demonstrated a surplus of £625.2m and £461.1m respectively, as set out below:

£m	31 Dec 2011	31 Dec 2010
CRCR	94.7	112.8
MRCR	21.5	31.3
FOH	118.7	116.0
Total Pillar 1 Requirement	234.9	260.1
Capital Resources	860.1	721.2
Excess Capital Resources	625.2	461.1

9 Non-Applicable Disclosures

The following disclosures specified under BIPRU 11.5 are not applicable to the Group:

- **BIPRU 11.5.10** – The Group uses the simplified method of calculating risk weights, not the standardised approach.
- **BIPRU 11.5.11** – The Group uses the simplified method of calculating risk weights, not the IRB approach.
- **BIPRU 11.5.13** – The Group does not use a VaR model to calculate its Market Risk Capital Requirement.
- **BIPRU 11.5.15** – The Group does not have a non-trading book exposure to equities;
- **BIPRU 11.5.17** – The Group does not securitise its assets
- **BIPRU 11.5.18** – The Group's Remuneration Disclosure Statement for 2011 is published on the Group's website:

APPENDIX A

TULLETT PREBON (EUROPE) LIMITED

1 Capital Resources

The Capital Resources of Tullett Prebon (Europe) Limited (“TPEL”) are determined in accordance with GENPRU 2 Annex 6.

The table below sets out the Capital Resources of TPEL as at 31 December 2011 and 31 December 2010 based upon the audited financial statements:

£m	31 Dec 2011	31 Dec 2010
Share Capital and Reserves	91.3	92.4
Core Tier One Capital	91.3	92.4
Tier One Deductions:		
Intangible Assets	(1.3)	(1.8)
Material Holdings	(2.9)	(0.9)
Tier One Capital After Deductions	87.1	89.7
Tier Two Capital	-	-
Tier Three Capital	-	-
Total Capital	87.1	89.7
Deductions from Total Capital:		
Illiquid Assets	(4.3)	(4.0)
Capital Resources	82.8	85.7

2 Capital Resources Requirement

2.1 Credit Risk Capital Requirement

The Credit Risk Capital Requirement (“CRCR”) consists of three elements and is calculated as follows:

2.1.1 Credit Risk Capital Component (“CRCC”)

Given the nature of its business acting as a Limited Activity firm, in calculating the appropriate CRCC under BIPRU 3.1.5, TPEL has adopted the simplified approach to calculating risk weights in accordance with BIPRU 3.5.5.

In accordance with this rule, a capital charge is taken to support TPEL's exposure to outstanding Name Give-Up brokerage and cash deposits. In addition, TPEL also includes within its CRCC calculation, any other 'non-trading book exposures' falling within BIPRU 3.1.6. These include:

- Tangible and intangible assets;
- Other receivables, prepayments and accrued income.

2.1.2 Counterparty Risk Capital Component (CPCC")

TPEL's Matched Principal activity gives rise to pre-settlement risk. Capital to support this pre-settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with BIPRU 14.3.5.

Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

2.1.3 Concentration Risk Capital Component ("CONC")

Capital to support concentration risk is calculated in accordance with BIPRU 10.5.16.

2.1.4 Total CRCR

Applying the above rules, the CRCR as at 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
CRCC	3.4	3.7
CPCC	-	-
CONC	-	-
Total CRCR	3.4	3.2

2.2 Market Risk Capital Requirement

TPEL's 'trading book' arises only where TPEL, when broking a trade on a Matched Principal basis, has failed to match clients' orders precisely. Such positions are marked-to-market on a daily basis and a Position Risk Requirement ("PRR") calculated in accordance with BIPRU 7.1.3(1). TPEL also calculates a PRR on its 'non-trading book' exposures, as required under BIPRU 7.1.3(2).

TPEL's total Market Risk Capital Requirement ("MRCR"), consisting of both the 'trading book' and 'non-trading book' PRRs, for 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
Trading Book PRR	-	-
Non-Trading Book PRR	1.9	2.1
Total MRCR	1.9	2.1

2.3 Fixed Overhead Requirement

Given TPEL's classification as a Limited Activity Firm, it is exempted from the requirement to calculate an Operational Risk Capital Requirement under BIPRU 6. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with GENPRU 2.1.53.

TPEL's Fixed Overhead Requirement as at 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
FOH	35.7	37.1

2.4 Pillar 2

As an FSA regulated firm, TPEL is obliged to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due (as per GENPRU 1.2.26R – "the Overall Financial Adequacy Rule").

It is also required to have in place sound, effective and complete processes, strategies and systems to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources that it considers adequate to: (i) comply with the Overall Financial Adequacy Rule; (ii) provide sufficient cover for the risks to which it is or might be exposed; and (iii) meet its future Capital Resources Requirements (GENPRU 1.2.30 – "the Overall Pillar 2 Rule").

The process whereby a firm assesses and formally documents the adequacy of its capital and liquidity resources and its compliance with the Overall Pillar 2 Rule is known as the Internal Capital Adequacy Assessment Process ("ICAAP").

The TPEL Board is responsible for reviewing and approving TPEL's ICAAP, at least annually, and TPEL's latest ICAAP was approved on 13 October 2011.

3 Capital Adequacy

The regulatory capital calculations for 31 December 2011 and 31 December 2010 demonstrated a surplus of £41.8m and £42.8m respectively, as set out below:

£m	31 Dec 2011	31 Dec 2010
CRCR	3.4	3.7
MRCR	1.9	2.1
FOH	35.7	37.1
Total Pillar 1 Requirement	41.0	42.9
Capital Resources	82.8	85.7
Excess Capital Resources	41.8	42.8

APPENDIX B

TULLETT PREBON (SECURITIES) LIMITED

1 Capital Resources

The Capital Resources of Tullett Prebon (Securities) Limited (“TPSL”) are determined in accordance with GENPRU 2 Annex 6.

The table below sets out the Capital Resources of TPSL as at 31 December 2011 and 31 December 2010 based upon the audited financial statements:

£m	31 Dec 2011	31 Dec 2010
Share Capital and Reserves	52.2	40.9
Core Tier One Capital	52.2	40.9
Tier One Deductions:		
Intangible Assets	-	(0.1)
Tier One Capital After Deductions	52.2	40.8
Tier Two Capital	-	4.2
Tier Three Capital	-	-
Total Capital	52.2	45.0
Deductions from Total Capital:		
Illiquid Assets	(0.2)	(0.1)
Capital Resources	52.0	44.9

2 Capital Resources Requirement

2.1 Credit Risk Capital Requirement

The Credit Risk Capital Requirement (“CRCR”) consists of three elements and is calculated as follows:

2.1.1 Credit Risk Capital Component (“CRCC”)

Given the nature of its business acting as a Limited Activity firm, in calculating the appropriate CRCC under BIPRU 3.1.5, TPSL has adopted the simplified approach to calculating risk weights in accordance with BIPRU 3.5.5.

In accordance with this rule, a capital charge is taken to support TPSL’s exposure to outstanding Name Give-Up brokerage and cash deposits. In addition, TPSL also includes within its CRCC calculation, any other ‘non-trading book exposures’ falling within BIPRU 3.1.6. These include:

- Tangible and intangible assets;
- Other receivables, prepayments and accrued income.

2.1.2 Counterparty Risk Capital Component (CPCC")

TPSL's Matched Principal activity gives rise to pre-settlement risk. Capital to support this pre-settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with BIPRU 14.3.5.

Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

2.1.3 Concentration Risk Capital Component ("CONC")

Capital to support concentration risk is calculated in accordance with BIPRU 10.5.16.

2.1.4 Total CRCR

Applying the above rules, the CRCR as at 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
CRCC	1.2	1.4
CPCC	0.5	0.2
CONC	-	-
Total CRCR	1.7	1.6

2.2 Market Risk Capital Requirement

TPSL's 'trading book' arises only where TPSL, when broking a trade on a Matched Principal basis, has failed to match clients' orders precisely. Such positions are marked-to-market on a daily basis and a Position Risk Requirement ("PRR") calculated in accordance with BIPRU 7.1.3(1). TPSL also calculates a PRR on its 'non-trading book' exposures, as required under BIPRU 7.1.3(2).

TPSL's total Market Risk Capital Requirement ("MRCR"), consisting of both the 'trading book' and 'non-trading book' PRRs, for 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
Trading Book PRR	-	-
Non-Trading Book PRR	0.8	1.1
Total MRCR	0.8	1.1

2.3 Fixed Overhead Requirement

Given TPSL's classification as a Limited Activity Firm, it is exempted from the requirement to calculate an Operational Risk Capital Requirement under BIPRU 6. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with GENPRU 2.1.53.

TPSL's Fixed Overhead Requirement as at 31 December 2011 and 31 December 2010 was:

£m	31 Dec 2011	31 Dec 2010
FOH	15.6	14.2

2.4 Pillar 2

As an FSA regulated firm, TPSL is obliged to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due (as per GENPRU 1.2.26R – "the Overall Financial Adequacy Rule").

It is also required to have in place sound, effective and complete processes, strategies and systems to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources that it considers adequate to: (i) comply with the Overall Financial Adequacy Rule; (ii) provide sufficient cover for the risks to which it is or might be exposed; and (iii) meet its future Capital Resources Requirements (GENPRU 1.2.30 – "the Overall Pillar 2 Rule").

The process whereby a firm assesses and formally documents the adequacy of its capital and liquidity resources and its compliance with the Overall Pillar 2 Rule is known as the Internal Capital Adequacy Assessment Process ("ICAAP").

The TPSL Board is responsible for reviewing and approving TPSL's ICAAP, at least annually, and TPSL's latest ICAAP was approved on 13 October 2011.

3 Capital Adequacy

The regulatory capital calculations for 31 December 2011 and 31 December 2010 demonstrated a surplus of £33.9m and £33.0m respectively, as set out below:

£m	31 Dec 2011	31 Dec 2010
CRCR	1.7	1.6
MRCR	0.8	1.1
FOH	15.6	14.2
Total Pillar 1 Requirement	18.1	16.9
Capital Resources	52.0	49.9
Excess Capital Resources	33.9	33.0