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

Tullett Prebon is one of the world's largest interdealer brokers, and acts as an intermediary in the wholesale financial markets, facilitating the trading activity of its clients, in particular commercial and investment banks.

The business covers the following major product groups: Fixed Income Securities and their derivatives, Interest Rate Derivatives, Treasury Products, Equities and Energy. Tullett Prebon's business is conducted through voice broking, where brokers, supported by proprietary screens displaying historical data, analytics and real-time prices, discover price and liquidity for their clients; and through electronic platforms, which complement and support the voice broking capability.

Tullett Prebon also has an established data sales business, Tullett Prebon Information, which collects, cleanses, collates and distributes real-time information to data providers, and a Risk Management Services ('RMS') business which provides clients with post-trade, multi-product matching services, associated market data and independent valuation services.

The Group's operating subsidiaries consist mainly of broking subsidiaries, which provide brokerage services on either a Name Passing, Matched Principal or Executing Broker basis. The Group operates its Tullett Prebon Information business through separate subsidiaries. The RMS business is operated through broking subsidiaries in Asia.

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 Executing Broker business) or Limited Licence Firms (for subsidiaries that undertake only Name Passing business), as defined in BIPRU 1.1.11 and BIPRU 1.1.12 respectively. The Tullett Prebon 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 2012.

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 Structure

Introduction

The Group's risk management governance structure is based on the three lines of defence principle which segregates risk management (first line of defence) from risk oversight (second line of defence) and risk assurance (third line of defence).

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 structure 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, defining the type and level of risk that the Group is willing to accept in pursuit of its business objectives. The Board sets down in the Enterprise Risk Management Framework how the Group's risk exposure must be managed in line with the Group's overall business objectives and within its stated risk appetite. This includes the governance of the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Group.

The Board is responsible for approving the Risk Assessment Framework, which is used to ensure that the Group has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the Group, and to enable it to assess the adequacy of its risk management policies in the context of the Group's risk appetite. The Risk Assessment Framework process includes an assessment of the controls in place to manage each risk identified, and the identification of any changes required to the control environment.

The Board is 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's ICAAP in which the Group documents its assessment of the adequacy of its capital and liquidity resources, in accordance with FSA requirements.

First Line of Defence - Risk Management

Business Management
The first line of defence is the regional senior management who have primary responsibility for ensuring that risks are clearly owned and managed on a day to day basis, that systems of control operate effectively and that the Group's risk exposure remains within the prescribed risk tolerances set out in the Group's Risk Management Policies.

The regional senior management are reliant on various support and control functions in the discharge of their risk management responsibilities, most notably the regional Credit, Operations, Compliance, Legal and Finance departments.

Compliance
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 those imposed by the regulatory framework of the other jurisdictions in which the Group operates. The compliance officers are in regular contact with the regional management 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 reporting thresholds 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.

Operations / Settlements
The Operations departments play a key role in establishing procedures and monitoring the exposure to risks arising in Matched Principal activities. Controls include the reconciliation of cash, client money and securities positions; the monitoring and resolution of late-settling trades and resultant cash positions; and the identification and control of 'non-standard' transactions.

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.

Second Line of Defence - Risk Oversight

The second line of defence consists of the Group's risk oversight functions, principally the Group Risk Control function and the Group Treasury and Risk Committee ('GTRC') as well as certain business support functions which undertake a risk oversight activity in addition to their primary roles, most notably the Compliance and Finance departments.

Group Risk Control
Group Risk Control is independent of the business and is responsible for monitoring the Group's risk exposure and developing risk management policies to ensure that the Group operates in accordance with the Group's risk appetite. In fulfilling this duty, it provides daily and monthly risk reports to senior management which are reviewed by the GTRC. The Group Treasurer and Head of Risk Control reports to the Group Finance Director.

Group Treasury and Risk Committee
The members of the GTRC are the Chief Executive, who acts as chairman, the Group Finance Director and the Group Treasurer and Head of Group Risk Control. The minutes of the GTRC are circulated to the Board.

The responsibilities of the GTRC are:

– to review the risks arising in the Group's businesses and the adequacy of controls, including limits and minimum control standards established to mitigate and monitor such risks;
– to monitor the implementation and effectiveness of the Group's risk management framework;
– to make recommendations on risk appetite to the Board;
– to set the Group's risk tolerance for the various risks faced by the Group;
– to monitor the Group's risk profile against its Risk Appetite Statements and tolerances; and
– to make recommendations for improvements to the control infrastructure or risk management processes.

Business Support Functions exercising Oversight
Certain business support functions undertake certain risk oversight activities in addition to their first line of defence risk management activities.

– *Operations departments* - key oversight activities include the monitoring of residual balances and failed settlements, as well as the review of 'cancels and corrects' trade amendments.
– *Compliance departments* - the regional Compliance departments are responsible for investigating any suspicious broker or market activity, with the Head of Compliance acting as the Group's Money Laundering Reporting Officer.
– *Finance departments* – Finance departments review financial results and balance sheets and investigate any unusual or unexpected results.

Third Line of Defence - Independent Assurance

The third line of defence consists of the Group's risk assurance functions, principally the Internal Audit function which reports to the Audit Committee of the Board.

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 2012 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 2011. 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 2013 at its December 2012 meeting.

Internal Audit also provides an independent reporting facility under the Group's whistle-blowing arrangements.

4 Risk Management Framework

Enterprise Risk Management Framework

The Group recognises that a strong culture of risk management is essential for the financial strength and resilience of the Group, and for the achievement of its business objectives. The Board acknowledges its responsibility for ensuring that the Group has an appropriately robust framework of risk governance and controls in place at all times and across all risk categories, which both complies with all applicable regulatory requirements and is in line with industry good practice. The Group's risk management framework is set out in the Enterprise Risk Management Framework. The Enterprise Risk Management Framework documents the core principles, key components and key responsibilities of the risk management framework adopted by the Board to manage the Group's risk exposure in line with the Group's overall business objectives and within its stated risk appetite.

Risk Appetite Statements

The Group's Risk Appetite Statements define the type and level of risk that the Group is willing to accept in pursuit of its business objectives. The Group's Risk Appetite Statements are approved by the Board in the context of the Group's strategy. The Risk Appetite Statements are articulated at the levels of general risk types that could impact on the business objectives set by the Board. Each Risk Appetite Statement is translated into high level measures and tolerances.

In accordance with the Risk Appetite Statements set by the Board, 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 Risk Assessment Framework process ensures that the Group has a comprehensive understanding of its risk profile, including both existing and emerging risks faced by the Group, and to enable it to assess the adequacy of its risk management policies in the context of the Group's Risk Appetite Statements.

The Risk Assessment Framework identifies risks within nine risk categories. The risks within each category 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. The Risk Assessment Framework process includes an assessment of the controls in place to manage each risk identified, and the identification of any changes required to the control environment.

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 in the Group's ICAAP process and to inform 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.

Risk Management Policies

For each risk identified in the Risk Assessment Framework the Group adopts a Risk Management Policy. These Risk Management Policies prescribe the control framework to be implemented and also set out the risk tolerances adopted by the Group, to manage each risk.

Each risk management policy includes:

- a detailed description of the risk;
- the risk tolerance(s) adopted to manage the risk;
- the control framework (i.e. the key controls) adopted to manage the risk, specifying the member of senior management responsible for its implementation;
- any sub-policies adopted to manage the risk; and
- the allocation of responsibility for monitoring the Group's exposure to individual risks, and for risk reporting and escalation.

Stress Testing

The stress test regime operated by the Group is a core component of the Group's risk management framework. There are three principal objectives in undertaking these stress tests:

- to inform the Group's assessment of its risk profile, both in respect of its existing business and also as regards any potential changes to its business activities (including potential acquisitions);
- to test the ability of the Group to withstand the materialisation of the various risks identified in the Risk Assessment Framework, in both 'normal' and 'stressed' conditions. This entails an assessment of the adequacy of the Group's financial resources (both capital and liquidity) and the potential management actions available to the Group to mitigate the effect of any such adverse events; and
- to identify any gaps in the Group's risk and control assessment process or deficiencies in the Group's Risk Management Policies, such as a potential weaknesses in the controls operated by the Group.

The Group's stress test regime seeks to incorporate the various requirements imposed by the Group's regulators, including those specified by the FSA.

ICAAP

The FSA requires the Group's two active UK regulated firms to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') to assess the capital adequacy of each firm. Through this process the entities confirm that they hold sufficient capital and liquidity resources in the context of their business objectives, business model and risk profile, and the Group's risk management framework. These ICAAP submissions are approved by the board of the relevant firm.

The Group has been granted an Investment Firm Consolidation Waiver, in accordance with which the Group is not subject to consolidated capital adequacy requirements and so is not required to prepare an ICAAP submission for the Group as a whole. However, the Group still undertakes an assessment of the Group's capital adequacy for internal risk management purposes based on the ICAAP requirements.

Risk Reporting

The GTRC, Executive Directors and senior management receive appropriate information and exception reports to comply with the Group's Risk Management 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 faced by the Group into nine risk categories: Market Risk, Credit Risk, Operational Risk, Strategic and Business Risk, Governance Risk, Regulatory, Legal and Human Resources Risk, Reputational Risk, Liquidity Risk and Other Financial Risks.

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 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.

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 Passing brokerage receivables.

In addition to each individual element of counterparty risk identified above, the Group is also exposed to concentration risk. This is where the Group becomes overly exposed to these credit exposures in the aggregate either to an individual counterparty or to a group of linked counterparties.

<u>Pre-settlement Risk</u>
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.

<u>Settlement Risk</u>
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 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 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 Passing Brokerage Receivables
The majority of transactions brokered by the Group are on a Name Passing 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 Passing 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 linked 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 Passing trades, and the amount on deposit for cash deposit exposure. Credit departments also monitor exposures across country groupings and credit rating and sector categories.

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, or 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 Risk on the senior management of each business unit.

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 four principal categories of Strategic and Business Risk:

– direct regulatory risk;
– indirect regulatory risk;
– lower market activity risk; and
– commercial risk.

Direct Regulatory Risk
The risk of new regulations imposing a fundamental change to the structure or activity of financial markets, resulting in a reduced role for interdealer brokers. Specific issues could include an inability of the business to provide electronic platforms or market facilities which are compliant with new regulations or the obligation to hold punitive levels of regulatory capital.

Indirect Regulatory Risk
The risk of a fundamental change to the commercial environment due to the impact on clients of changes to their regulatory environment causing significantly reduced trade volumes. This could include increased execution and clearing costs, onerous collateral requirements or increases in regulatory capital requirements, or a prohibition on certain types of trading activity.

Lower Market Activity Risk
The risk that the Group experiences a sustained period of low market activity leading to reduced revenues. This could arise as a result of adverse macro-economic conditions, reduced levels of general banking activity, market uncertainty or lack of volatility.

Commercial Risk
The risk of a fundamental change to the commercial environment, whether due to client requirements or competitor activity. The Group seeks to manage and mitigate its commercial risk by following a clearly defined business development strategy, geographic and product diversification and strong client relationship management.

Commercial risk also includes 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.

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 recommended 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 GTRC. Succession planning within the Group is overseen by the Board.

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.

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, procedures for employee hiring and the taking on of new business.

Liquidity Risk

The Group seeks to ensure that it has access to an appropriate level of cash, other forms of marketable securities and facilities 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 GTRC.

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.

The Group is also exposed to potential margin calls from clearing houses and correspondent clearers, both in the UK and US.

In the event of a liquidity issue arising, the firm has recourse to existing global cash resources, in addition to which it could draw down on a £115m committed revolving credit line as additional contingency funding. This facility remained undrawn throughout 2012.

Other Financial Risks

The nature and scope of the Group's operations mean that it is exposed to a number of other financial risks including interest rate risk, currency risk, taxation risk, and pension obligation risk..

<u>Interest Rate Risk</u>
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 GTRC 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.

Taxation Risk

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

The risk that the Group is required, in the short and medium term, to fund a deficit in the Group's defined benefit pension scheme.

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 2012 and 31 December 2011 consisted of:

£m	31 Dec 2012	31 Dec 2011
Called-up Share Capital	54.4	53.8
Share Premium	17.1	9.9
Own Shares	(0.1)	(0.1)
Other Reserves	-	7.7
Profit and Loss Account	787.4	788.8
Total Shareholders' Funds	858.8	860.1

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 2012 and December 2011 was:

£m	31 Dec 2012	31 Dec 2011
CRCC	66.5	94.2
CPCC	0.5	0.5
CONC	-	-
Total CRCR	**67.0**	**94.7**

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
Trading Book PRR	-	-
Non-Trading Book PRR	15.6	21.5
Total MRCR	**15.6**	**21.5**

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
FOH	132.6	118.7

7.4 Pillar 2

The Group has been granted an Investment Firm Consolidation Waiver, in accordance with which the Group is not subject to consolidated capital adequacy requirements and so is not required to prepare an ICAAP submission for the Group as a whole. However, the Group still undertakes an assessment of the Group's capital adequacy ('Group ICAAP') for internal risk management purposes based on the ICAAP requirements.

The Board is responsible for reviewing and approving the Group's ICAAP.

8 Capital Adequacy

The Financial Holding Company Test for 31 December 2012 and 31 December 2011 demonstrated a surplus of £643.6m and £625.2m respectively, as set out below:

£m	**31 Dec 2012**	**31 Dec 2011**
CRCR	67.0	94.7
MRCR	15.6	21.5
FOH	132.6	118.7
Total Pillar 1 Requirement	**215.2**	**234.9**
Capital Resources	858.8	860.1
Excess Capital Resources	**643.6**	**625.2**

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 2012 is published on the Group's website:
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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 2012 and 31 December 2011, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2012	31 Dec 2011
Share Capital and Reserves	109.7	67.0
Core Tier One Capital	109.7	67.0
Tier One Deductions:		
Intangible Assets	(0.8)	(1.3)
Material Holdings	(0.9)	(2.9)
Tier One Capital After Deductions	107.9	62.9
Tier Two Capital	-	-
Tier Three Capital	0.6	2.8
Total Capital	108.4	65.7
Deductions from Total Capital:		
Illiquid Assets	(8.6)	(4.3)
Capital Resources	99.8	61.4

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
CRCC	4.4	3.4
CPCC	-	-
CONC	-	-
Total CRCR	4.4	3.4

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
Trading Book PRR	-	-
Non-Trading Book PRR	2.7	1.9
Total MRCR	2.7	1.9

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
FOH	37.4	35.7

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 (GENRPU 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.

3 Capital Adequacy

The regulatory capital calculations for 31 December 2012 and 31 December 2011 demonstrated a surplus of £55.3m and £20.4m respectively, as set out below:

£m	31 Dec 2012	31 Dec 2011
CRCR	4.4	3.4
MRCR	2.7	1.9
FOH	37.4	35.7
Total Pillar 1 Requirement	44.5	41.0
Capital Resources	99.8	61.4
Excess Capital Resources	55.3	20.4

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 2012 and 31 December 2011, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2012	31 Dec 2011
Share Capital and Reserves	52.9	39.5
Core Tier One Capital	52.9	39.5
Tier One Deductions:		
Intangible Assets	-	-
Tier One Capital After Deductions	52.9	39.5
Tier Two Capital	-	-
Tier Three Capital	1.2	15.6
Total Capital	54.0	55.0
Deductions from Total Capital:		
Illiquid Assets	(3.3)	(0.2)
Capital Resources	50.7	54.8

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
CRCC	1.8	1.2
CPCC	0.3	0.5
CONC	-	-
Total CRCR	2.1	1.7

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
Trading Book PRR	-	-
Non-Trading Book PRR	0.5	0.8
Total MRCR	0.5	0.8

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 2012 and 31 December 2011 was:

£m	31 Dec 2012	31 Dec 2011
FOH	16.2	15.6

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 (GENRPU 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.

3 Capital Adequacy

The regulatory capital calculations for 31 December 2012 and 31 December 2011 demonstrated a surplus of £31.9m and £36.7m respectively, as set out below:

£m	31 Dec 2012	31 Dec 2011
CRCR	2.1	1.7
MRCR	0.5	0.8
FOH	16.2	15.6
Total Pillar 1 Requirement	18.8	18.1
Capital Resources	50.7	54.8
Excess Capital Resources	31.9	36.7