TULLETT PREBON PLC

PILLAR 3 DISCLOSURES - 2014

1. Introduction

1.1 Background

The Capital Requirements Directive ("CRD"), which represented the European Union's ("EU") implementation of the Basel II Accord, established a prudential framework governing the type and amount of capital to be held by credit institutions and investment firms.

The CRD was replaced by the Capital Requirements Regulation (CRR) and Capital Requirement Directive IV (CRD IV), with effect from 1 January 2014, following the agreement of the Basel III Accord. The CRR has direct effect within the UK, whilst CRD IV has been implemented into UK law through the FCA Handbook, specifically by the adoption of the Prudential Sourcebook for Investment Firms (IFPRU).

The revised prudential framework continues to consist 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 FCA 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.

Articles 431 – 455 of CRD IV set out the specific disclosure requirements 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 Article 431(3) of CRD IV the Group has adopted a formal disclosure policy to comply with the disclosure requirements, and has policies for assessing the appropriateness of the disclosures, including their verification and frequency.

Under Article 432(1) of CRD IV, 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 Article 432(2) of CRD IV, 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 Article 433 of CRD IV, 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 CRR Requirements

2.1 Business Overview

The Group 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. The Group'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.

The Group 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.

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 Article 96(1) and Article 95(1) of the CRR respectively. The Tullett Prebon Information subsidiaries, along with the service and holding companies within the Group, fall outside the scope of the CRR (on a solo basis) on the basis that they do not constitute Investment Firms (as defined in Article 4(2) of the CRR).

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 Article 15(1) of the CRR), the Group applied for and received a renewal of its waiver from consolidated supervision, which is valid from 25 September 2014 until 24 September 2024. 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 Article 15(2) of the CRR. 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.

2.3 Solo Regulation

The group has three broking subsidiaries in the UK that are FCA regulated on a 'solo' basis as IFPRU Limited Activity Firms under IFPRU 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 Enterprise Risk Management Framework

The Board has adopted an Enterprise Risk Management Framework ("ERMF"), the purpose of which is to enable the Group to understand the risks to which it is exposed, and to manage them in line with the Group's overall business objectives and within its stated risk appetite. The ERMF identifies processes, ownership, responsibilities and the risk oversight required to support effective implementation of the framework, and comprises four mutually reinforcing components:

- A risk management philosophy which sets out the Group's underlying attitude to the management of risk and addresses the Group's risk appetite;
- A risk management culture which seeks to foster adoption of appropriate risk management principles and behaviours throughout the Group;
- A risk management governance structure based on three lines of defence that segregate risk management (first line of defence) from risk oversight (second line of defence) and risk assurance (third line of defence); and
- Risk management processes that enable identification, assessment, management and reporting of risk exposures.

Risk Management Philosophy

Effective risk management is essential for the financial strength and resilience of the Group, and for the achievement of its business objectives. The Board has the responsibility to ensure that the Group implements an appropriate risk management culture throughout the Group, underpinned by a robust framework of risk governance and controls, complying with all relevant laws and regulations.

The Group has adopted core principles that set the context for the Group's risk management activities. Risk management should be value enhancing so that current and potential risks are managed to support achievement of the Group's business objectives and strategy. Risk management should address the expectations and requirements of the key stakeholders (shareholders and regulatory authorities). Risk oversight and assurance functions should be sufficiently independent of business decision taking and supported by adequate resources. The Board must clearly define its risk appetite, setting out the type and level of risk the Group is willing to accept in pursuit of its objectives. Risk management should be integrated into business processes of the Group, and both current and emerging risks should be managed as an integral aspect of the business management processes. Risk management should be proportionate and commensurate with the level and complexity of both the business model and the nature of associated risks. The cost of risk management should be proportionate to the value it creates for the Group, while ensuring that regulatory objectives are met. Risk management should be subject to continual review and enhancement to ensure that associated structures, systems and processes remain effective and reflect stakeholder expectations.

Risk Management Culture

The Board recognises that embedding a sound risk management culture is fundamental to the effective operation of the Group's risk management framework, and sets the tone and manner in which the Group conducts its business activities through defined values and expected behaviours. The Board recognises that the Group must ensure that the risk management culture is implemented across all of its businesses and functions, such that all employees are aware of, and act in conformity with, the desired values and behaviours adopted by the Group in their day-to-day activities.

The Group achieves the implementation of its desired risk management culture through a combination of frameworks, policies and practices, including: the Group cultural framework which puts market integrity at the heart of the business; Risk Appetite Statements that clearly define the type and level of risk the Group is willing to accept in pursuit of its objectives; Risk Management Policies that set out risk management expectations, including through the establishment of risk limits for each risk and the allocation of responsibility for identification, assessment, mitigation and reporting of risks to specific individuals; performance management that links staff appraisals and remuneration to risk management

attitudes and behaviours; and corporate communications that reinforce awareness and understanding of the Group's desired risk management culture and associated policies.

Risk Management Governance Structure

The Board

The Board has overall responsibility for the management of risk within the Group. This includes determining the nature and extent of the principal risks it is willing to take in achieving its objectives, defining expectations for the Group's risk culture, ensuring that it has an appropriate and effective risk management framework, setting the Group's risk appetite and monitoring performance so that the Group remains within its risk appetite.

The Board has delegated risk governance responsibilities to certain committees. In 2015, the Board will form a new Risk Committee as a sub-committee of the Board, which will be responsible for the oversight of risk management across the Group. The committee structure will then include the Group Treasury and Risk Committee (first line of defence), the Risk Committee of the Board (second line of defence) and the Audit Committee (third line of defence).

First Line of Defence – Risk Management within the Business

The first line of defence comprises the management of the business units and support functions. The first line of defence has primary responsibility for ensuring that the business operates within risk appetite on a day-to-day basis.

In discharging this responsibility, business management are responsible for identifying, assessing and managing any risks arising from their activities, and for adhering to all relevant risk management policies adopted by the Group. This includes ensuring the effective operation of any controls required to manage risk within appetite, and for ensuring that the employees for whom they are responsible are aware of, and competent to undertake, their role in the risk management process.

The Group Treasury and Risk Committee (GTRC) is an executive committee that is responsible for overseeing the day-to-day management of risks, and ensuring that the Group's risk exposure remains within its risk appetite.

Second line of defence – Risk Oversight

The second line of defence comprises the Risk and Compliance functions which are separate from operational management and are responsible for overseeing and challenging the first line of defence as it undertakes the identification, assessment and management of risks, and for assisting the Board (and its various committees) in discharging its overall risk management responsibilities.

In 2015, the Board will form a new Risk Committee as a sub-committee of the Board, which will be responsible for the oversight of risk management across the Group. The Risk Committee will comprise at least three members, with a majority of Non-executive Directors ('NEDs'), one of whom will also serve as a member of the Audit Committee. The Risk Committee will be chaired by a NED with appropriate risk management expertise, and will be attended by the Group CEO and Group CRO.

The Risk Committee will be supported by regional risk committees which will have the same oversight responsibilities as the Risk Committee, but exercised at a regional level. The regional risk committees will also be chaired by a NED with risk management expertise.

The Group's Risk function is responsible for assisting the Board in the development of the Group's risk appetite and framework; monitoring the implementation of the risk framework and regulatory requirements (including conduct and market integrity) and providing robust challenge to the first line in its risk management activities.

The Compliance function is responsible for monitoring compliance with all applicable regulatory requirements, including those relating to conduct of business requirements, market abuse provisions and the prevention of financial crime.

Third Line of Defence – Independent Assurance

Internal Audit provides independent assurance on the design and operational effectiveness of the Group's risk management framework and activity, including the performance of the various business units and support and oversight functions which constitute the first and second lines of defence. Internal Audit considers all relevant risk related information in constructing its audit plan, including risk exposure reports, the results of risk and control self-assessments, and specific risk events which have occurred (such as loss events or 'near-misses'). Internal Audit has a direct reporting line to the Audit Committee.

The Audit Committee is a sub-committee of the Board, which discharges a number of risk management responsibilities, including the review of the effectiveness of the Group's internal control and risk management procedures; the approval of the Group's annual internal audit plan, and review of the internal audit function; and the review of all internal audit reports and related management actions. The Audit Committee is comprised of at least three members, all of whom are NEDs.

Risk Management Processes

The ERMF sets out the core risk management activities undertaken by the Group to ensure that it manages risk exposures within risk appetite, to ensure that the Group's desired risk culture is embedded throughout the Group, and that the Board understands the Group's risk profile and adopts a clearly defined risk appetite.

The business objectives and strategy adopted by the Board determine the nature and scale of the commercial activities undertaken by the Group, and the overall risk appetite of the Group. As such, the business objectives are the key determinant of the Group's risk profile.

The Risk function periodically identifies the various risk exposure types of the Group, collectively referred to as the risk universe (previously referred to as the Risk Assessment Framework). This exercise also covers any emerging risks, defined as newly developing and changing risks which could have a significant impact on the Group. The risk universe is approved by the Board at least once a year, or more frequently in the event of a significant change to the Group's business activities or external business environment.

Risk appetite represents the type and level of risk which the Group is willing to accept in pursuit of its objectives and is articulated by the Board through the Group's Risk Appetite Statements, at least annually or more often if required. These can be expressed in either quantitative or qualitative terms. The Group implements these risk appetite statements through the adoption of 'risk limits' which provide exposure thresholds that the business must use to manage the Group's risk exposure on a day-to-day basis. Risk limits are approved by the GTRC on a semi-annual basis. In setting its risk appetite, the Group adheres to the overriding principle that the risk profile of the Group should be managed to as low as reasonably practicable.

The Group publishes Risk Management policies which describe the principal risk management and control requirements that must be implemented to manage the Group's risk exposure within appetite. The GTRC approves the Risk Management Policies annually, or more often if needed.

The Group assesses risk exposure at least twice a year to ensure that it is operating within risk appetite. The assessment of risk exposure consists of the Risk and Controls Self-Assessment Process ("RCSA"); and stress testing and scenario analysis. The findings of the RCSA process and the stress and scenario analysis are taken together to determine total risk exposure, and then compared with the applicable risk appetite statement to assess whether the Group is operating within risk appetite.

The RCSA is the process by which each subsidiary assesses its current exposure to risk, including an assessment of the effectiveness of the control framework it has in place. RCSAs are performed by business and control functions with support from the Risk function. Any impact on the Group's capital, liquidity, reputation, regulatory standing or access to capital markets is considered.

The Group undertakes stress tests and scenario analyses to complement the RCSA process and enhance its understanding of its risk profile and control framework. The Group undertakes the following stress tests and scenario analysis alongside the RCSA process: macro-economic scenarios to investigate the impact on the Group of 'severe but plausible' external events which are beyond the control of the Group; and reverse stress tests to identify those risks which could render the Group's business model unviable in an extreme scenario, thereby identifying those areas of the Group's control framework which require particular scrutiny.

The ability of the Group to withstand severe risk events is, to a large extent, determined by the level of capital and liquidity resources held by the Group. The Group therefore regularly assesses the adequacy of its capital and liquidity resources to cover the Group's risk profile as established through the RCSA and stress test and scenario process. The assessment of financial resources is undertaken at a subsidiary level, to ensure that each subsidiary has access to adequate financial resources on a standalone basis.

The Group's Risk Management policies set out reporting requirements for each risk. Day-to-day monitoring and reporting of risk exposures are assigned to specific functions or individuals. Risk exposures are reported against the relevant risk appetite or risk limit and escalation procedures ensure that significant exposures and events are subject to senior management review and action. The Group's Risk Management policies also set out reporting requirements covering both events which have or might have resulted in a material financial or reputational loss to the Group. The GTRC reviews reporting requirements at least annually as part of its review of the Risk Management policies.

4 Principal Risks

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.

Pre-settlement risk

Pre-settlement risk arises in the Matched Principal broking business in which Group subsidiaries interpose themselves as principal between 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

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 settling its side of the transaction without simultaneous receipt of the counter-value) 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 amount on deposit for cash deposit exposure. Credit departments also monitor exposures across country groupings, credit rating, and types of

counterparty.

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,
- events preventing access to premises, telecommunications failures or loss of power supply which interrupt business activities; and
- broker errors.

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 IDBs. 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 significant or fundamental changes to the commercial or competitive environment, whether due to client requirements or competitor activity.

The markets in which the Group competes are characterised by rapidly changing technology, evolving customer demand and uses of services, and the potential emergence of new industry standards and practices. Such changes may increase the risk that the Group faces additional costs or barriers to entry to markets that its competitors do not experience. New entrants or new methods of delivering broking

services may gain first mover advantage that the Group may not be able to respond to in a timely manner.

The Group competes with other interdealer brokers for staff. The costs of employing front office broking staff is currently the largest cost faced by the Group. The effect of the competition for broking staff can result in an increase in staff costs, or if staff leave the Group, can result in the loss of capability, customer relationships and expertise.

Consolidation within the industry or integration with adjacent sectors may provide competing firms or platforms with advantages of scale, access to wider pools of liquidity, or service capability that may put the Group at a competitive disadvantage.

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 Group Treasury and Risk Committee. 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 FCA, 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.

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 the United States.

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 £150m committed revolving credit line as additional contingency funding. This facility remained undrawn throughout 2014.

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 risks, and pension obligation risk.

Interest rate risk

The Group is exposed to interest rate risk on its cash deposits and on borrowings under bank facilities. The Group's Sterling Notes carry interest at fixed rates. Cash deposits are typically held at maturities of less than three months.

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.

5 Capital Resources

In accordance with Article 15(1)(d), the Capital Resources of the group are determined by the Financial Holding Company calculation, in accordance with which the calculation of the Group's Capital Resources is based on the balance sheet of Tullett Prebon plc, the holding company for the Group.

The table below sets out the Group's Capital Resources as at 31 December 2014 and 31 December 2013, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2014	31 Dec 2013
Audited Shareholders' Funds	882.5	858.8
Issue of Ordinary Shares (and associated costs)	64.7	-
Less Dividends paid	(36.7)	(36.7)
Capital Resources	**910.5**	**822.1**

6 Capital Resources Requirement

6.1 Credit Risk Capital Requirement

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

6.1.1 Credit Risk Capital Component ("CRCC")

The Group has adopted the standardised approach to calculating risk weights in accordance with Chapter 2 of Title II of the CRR.

In accordance with this rule, a capital charge is taken to support the Group's exposure to outstanding Name Passing brokerage and cash deposits. In addition, the Group also includes within its CRCC calculation, any 'other items' falling within Article 134 of the CRR. These include:

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

6.1.2 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 Article 378 of the CRR.

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.

6.1.3 Total CRCR

Applying the above rules, the CRCR for 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
CRCC	62.2	65.4
CPCC	2.0	0.2
Total CRCR	**64.2**	65.6
Risk Weighted Assets (RWA)	**802.5**	**820.0**

6.2 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 Part 3 Title IV of the CRR. The Group also calculates a PRR on its 'non-trading book' exposures, as required under Part 3 Title V of the CRR.

The Group's total Market Risk Capital Requirement ("MRCR"), consisting of both the 'trading book' and 'non-trading book' PRRs, for 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
Trading Book PRR	2.9	-
Non-Trading Book PRR	12.7	15.8
Total MRCR	**15.6**	**15.8**
RWA	**194.6**	**197.5**

6.3 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 Title III of the CRR. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with Article 97 of the CRR.

The Group's Fixed Overhead Requirement as at 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
FOH	134.8	132.6
Notional RWA	1,685.0	1,657.5

6.4 Large Exposure Requirement

In accordance with Article 388, the Group is not subject to the Large Exposure Regime, due to the fact that the Group only comprises Limited Activity and Limited Licence Firms (within Articles 96(1) and 95(1) of the CRR respectively).

6.5 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. As a result, the Group is not required to prepare an ICAAP submission for the Group as a whole but must instead provide the FCA with an ICAAP submission for each of its UK regulated entities on a solo basis.

Notwithstanding the strict regulatory position, the Group continues to undertake an assessment of the Group's capital adequacy for internal risk management purposes, which is approved by the Board.

7 Capital Adequacy

The table below demonstrates that the Group meets the required capital ratio of 8% of Risk Weighted Assets, under the Financial Holding Company Test and held a surplus of £695.9m and £608.1m as at 31 December 2014 and 31 December 2013 respectively:

£m	31 Dec 2014	31 Dec 2013
CRCR	64.2	65.6
MRCR	15.6	15.8
FOH	134.8	132.6
Total Pillar 1 Requirement	**214.6**	**214.0**
Capital Resources	910.5	822.1
Excess Capital Resources	**695.9**	**608.1**
Total RWA	**2,682.5**	**2,675.0**
Capital Ratio	**34.0%**	**30.7%**

8 Non-Applicable Disclosures

The following disclosures specified in CRD IV are not applicable to the Group:

- Article 440 – The Group is not currently required to hold any countercyclical capital buffer;
- Article 441 – The Group has not been designated an institution of global systemic importance;.
- Article 447 – The Group does not have a non-trading book exposure to equities;
- Article 449 – The Group does not securitise its assets
- Article 450 – The Group's Remuneration Disclosure Statement for 2014 is published on the Group's website:
- Article 451 - The Group is not currently required to comply with the leverage ratio requirements;
- Article 452 – The Group is subject to the standardised approach to credit risk, not the IRB approach;
- Article 454 – The Group has not adopted the AMA approach for calculating its operational risk exposure (as it is not subject to a Pillar 1 operational risk charge).
- Article 455 – The Group does not use an internal model to calculate its market risk exposure.

APPENDIX A

TULLETT PREBON (EUROPE) LIMITED

1 Capital Resources

The Capital Resources of Tullett Prebon (Europe) Limited ("TPEL") are determined in accordance with Part II of the CRR.

The table below sets out the Capital Resources of TPEL as at 31 December 2014 and 31 December 2013, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2014	31 Dec 2013
Share Capital and Reserves	94.3	97.5
Core Tier One Capital	94.3	97.5
Tier One Deductions:		
Intangible Assets	(0.4)	(0.7)
Material Holdings	-	(0.9)
Tier One Capital After Deductions	93.9	95.9
Tier Two Capital	-	-
Tier Three Capital*	-	1.6
Total Capital	93.9	97.5
Deductions from Total Capital:		
Illiquid Assets*	-	7.0
Capital Resources	93.9	90.5

*no longer applicable / required under the CRR with effect from 1 January 2014.

2 Capital Resources Requirement

2.1 Credit Risk Capital Requirement

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

2.1.1 Credit Risk Capital Component ("CRCC")

TPEL has adopted the standardised approach to calculating risk weights in accordance with Chapter 2 of Title II of the CRR.

In accordance with this rule, a capital charge is taken to support TPEL's exposure to outstanding Name Passing brokerage and cash deposits. In addition, TPEL also includes within its CRCC calculation, any 'other items' falling within Article 134 of the CRR. 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 Article 378 of the CRR. Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

2.1.3 Total CRCR

Applying the above rules, the CRCR as at 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
CRCC	5.6	4.2
CPCC	-	-
Total CRCR	**5.6**	**4.2**
RWA	**70.4**	**52.5**

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 Part 3 Title IV of the CRR. TPEL also calculates a PRR on its 'non-trading book' exposures, as required under Part 3 Title V of the CRR.

TPEL's total Market Risk Capital Requirement ("MRCR"), consisting of both the 'trading book' and 'non-trading book' PRRs, for 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
Trading Book PRR		-
Non-Trading Book PRR	2.4	2.1
Total MRCR	**2.4**	**2.1**
RWA	**30.5**	**26.3**

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 Title III of the CRR. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with Article 97 of the CRR

TPEL's Fixed Overhead Requirement as at 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
FOH	34.6	34.9
Notional RWA	432.3	436.3

2.4 Large Exposure Requirement

In accordance with Article 388, the Group is not subject to the Large Exposure Regime, due to the fact that TPEL is a Limited Activity Firm (under Article 96(1) of the CRR).

2.5 Pillar 2

As an FCA 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 table below demonstrates that TPEL meets the required capital ratio of 8% of Risk Weighted Assets, and held excess capital resources for 31 December 2014 and 31 December 2013 of £51.3m and £49.3m respectively:

£m	31 Dec 2014	31 Dec 2013
CRCR	**5.6**	**4.2**
MRCR	**2.4**	**2.1**
FOH	**34.6**	**34.9**
Total Pillar 1 Requirement	**42.6**	**41.2**
Capital Resources	**93.9**	**90.5**
Excess Capital Resources	**51.3**	**49.3**
Total RWA	**533.2**	**515.1**
Capital Ratio	**17.6%**	**17.6%**

APPENDIX B

TULLETT PREBON (SECURITIES) LIMITED

1 Capital Resources

The Capital Resources of Tullett Prebon (Securities) Limited ("TPSL") are determined in accordance with Part II of the CRR.

The table below sets out the Capital Resources of TPSL as at 31 December 2014 and 31 December 2013, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2014	31 Dec 2013
Share Capital and Reserves	50.1	57.7
Core Tier One Capital	50.1	57.7
Tier One Deductions:		
Intangible Assets	-	-
Tier One Capital After Deductions	50.1	57.7
Tier Two Capital	-	-
Tier Three Capital*	-	2.3
Total Capital	50.1	60.0
Deductions from Total Capital:		
Illiquid Assets*	-	(2.8)
Capital Resources	50.1	57.2

*no longer applicable / required under the CRR with effect from 1 January 2014.

2 Capital Resources Requirement

2.1 Credit Risk Capital Requirement

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

2.1.1 Credit Risk Capital Component ("CRCC")

TPSL has adopted the standardised approach to calculating risk weights in accordance with Chapter 2 of Title II of the CRR.

In accordance with this rule, a capital charge is taken to support TPSL's exposure to outstanding Name Passing brokerage and cash deposits. In addition, TPSL also includes within its CRCC calculation, any 'other items' falling within Article 134 of the CRR. 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 Total CRCR

Applying the above rules, the CRCR as at 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
CRCC	1.9	1.5
CPCC	0.2	0.1
Total CRCR	2.1	1.6
RWA	26.6	20.0

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 Part 3 Title IV of the CRR. TPSL also calculates a PRR on its 'non-trading book' exposures, as required under Part 3 Title V of the CRR.

TPSL's total Market Risk Capital Requirement ("MRCR"), consisting of both the 'trading book' and 'non-trading book' PRRs, for 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
Trading Book PRR	-	-
Non-Trading Book PRR	0.5	0.4
Total MRCR	0.5	0.4
RWA	5.8	5.0

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 Title III of the CRR. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with Article 97 of the CRR.

TPSL's Fixed Overhead Requirement as at 31 December 2014 and 31 December 2013 was:

£m	31 Dec 2014	31 Dec 2013
FOH	15.5	15.5
Notional RWA	**194.2**	**194.2**

2.4 Large Exposure Requirement

In accordance with Article 388, TPSL is not subject to the Large Exposure Regime, due to the fact that TPSL is a Limited Activity Firm (under Article 96(1) of the CRR).

2.5 Pillar 2

As an FCA 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 table below demonstrates that TPSL meets the required capital ratio of 8% of Risk Weighted Assets, and held excess capital resources for 31 December 2014 and 31 December 2013 of £32.0m and £39.7m respectively:

£m	31 Dec 2014	31 Dec 2013
CRCR	2.1	1.6
MRCR	0.5	0.4
FOH	15.5	15.5
Total Pillar 1 Requirement	18.1	17.5
Capital Resources	50.1	57.2
Excess Capital Resources	32.0	39.7
Total RWA	226.6	219.2
Capital Ratio	22.1%	26.1%