



Exotix Limited
Watson House
54 Baker Street
London
W1U 7BU

Tel: +44-20-7725 1000
Fax: +44-20-7725-1100

Pillar 3 Disclosures

Introduction

Exotix Limited ('Exotix') is authorised and regulated by the Financial Securities Authority ('FSA'). The capital requirements for firms such as Exotix to which the FSA Prudential Sourcebook for Banks, Building Societies and Investment Firms applies (as contained in FSA handbooks GENPRU and BIPRU) consist of three pillars.

- **Pillar 1** is a variable capital requirement based on the sum of operational, market and credit risk requirements. A firm must maintain at all times capital resources equal to or in excess of the amount specified. Capital requirements are prescribed by the FSA based on assumptions on the profile of the firm and a survey of the risk profile of regulated entities.
- **Pillar 2** requires each firm and supervisors to review whether additional capital should be held against (i) risks not covered in Pillar 1 or (ii) a risk profile that deviates from that assumed by the FSA when setting Pillar 1 capital requirements. Here principal risk mitigants are the systems and controls employed by the firm to control risk. Additional capital requirements only need to be assessed to the extent that these controls are ineffective in controlling the risk.
- **Pillar 3** requires firms to publish certain details of capital and risk management and to review and update this information at least annually. Under the rules a firm may omit one or more disclosures where the information provided by such disclosure is not regarded as material.

The Company

Background: Exotix is a frontier market investment banking boutique specialising in illiquid bonds and loans, equities, structured finance, asset management and capital raising. Exotix's core competences are our specialist understanding of illiquid assets (distressed or undervalued debt and equity), skills in raising structured finance and alternative investments. Through our extensive client base and investor relationships, international presence and research capability, we are able to identify value, provide specialist expertise and advice, as well as intermediate buyers and sellers. We are located throughout the world with offices in London, New York, Buenos Aires and Dubai.

Group Structure: Exotix Holdings Limited (registered in England, number 6112861) is the holding company of the Exotix Group. Exotix Holdings Limited is owned by (1) ICAP Plc (the world's largest interdealer broker and a FTSE 100 company, <http://www.icap.com/>), (2) IPGL Limited (the private investment company headed by Michael Spencer, which holds a 20% interest in ICAP within its portfolio of investments) and (3) PBAC Limited (a vehicle to pool employee ownership).

The role of Exotix: Exotix is licensed to provide a number of different financial services but its core business activity is providing liquidity to both buyers and sellers of financial instruments. When intermediating in the financial markets Exotix will act in either a principal or agency capacity. When acting as principal Exotix will purchase and sell financial instruments in either its own name or that of its settlement agent, ICAP Securities Limited. ICAP Securities Ltd is a major trading subsidiary of the ICAP group and assumes settlement risk for and on behalf of Exotix. More information about ICAP's relationship with Exotix can be found at <http://www.icap.com/markets/interest-rates/exotix.aspx>. Further details on the nature of the service the Broker, as an Inter-Dealer Broker, provides to its clients can be found at: http://www.wmba.org.uk/execution_policy/annex_2.doc.

Risk Management Objectives and Policies

The Board of Exotix determines the business strategy and the risk profile of Exotix. As a consequence of Exotix's focus on specific product areas, clearly defined customer base, coupled with a very experienced in-house team and the use of clearing and settlement services providers, the company considers that it is aware of and clearly recognises the risks that the business faces. Senior Management enforce systems and controls that seeks to clearly allocate significant responsibilities among senior personnel to ensure that these can be adequately monitored, controlled and to ensure that appropriate systems and controls are established and maintained. The senior management of the company meet on a regular basis, both formally and informally to discuss and review the risk exposure of the business and the effective and efficient management of those risks. A key risk management component is the experienced and highly qualified personnel employed by the company. Exotix's appetite for risk is inherently low and it only engages in services and products if it believes that it can ensure sound and effective risk management. The business is controlled initially by soft limits applied internally which seek to express the maximum accepted risk exposure both in qualitative and quantitative terms. These combined with policies and monitoring provide a balanced and effective control that is underpinned by our relationship with our settlement agent.

Market Risk (Trading Book): The market risk capital requirement is calculated as the sum of the Position Risk requirements. In general Exotix does not currently hold any proprietary positions (and is currently seeking a regulatory restriction on its permissions to remove the capacity to hold proprietary positions other than those arising from operation risk events) and thus does not carry any market risk related to such exposures. In the event that any positions are held for any reason these are monitored according to agreed risk management parameters. Exotix does have Foreign Exchange risk related to amounts due from and to counterparties receivable and payable in a foreign currency. Details of these exposures are contained within Exotix's statutory accounts.

Market Risk (Non-Trading Book): Whilst Exotix holds substantial liquid cash balances (that are not exposed to market risk, but are exposed to interest rate risk) a large part of the capital base of the company is invested in fund units. Although exposed to underlying market risk on emerging market assets the funds are professionally managed with monthly liquidity terms. However, because of the size of the investment, Exotix deducts the market value of the investment from total Tier 1 and Tier 2 Capital in accordance with FSA requirements on material investments. Exotix's management considers this to be an overly prudent approach but do not reduce the level of the capital requirement associated with these investments within its Pillar 2 Capital Assessment.

Credit Risk: Credit Risk is the risk of unexpected loss as a result of counterparties failing to meet obligations to pay outstanding balances. A credit risk assessment is carried out at the beginning of each relationship with a customer and a general overall exposure limit is set. Accounts are reviewed and monitored on a regular and ongoing basis both internally and in conjunction with the clearing and settlement services providers. For Exotix, credit risk relates in large part to amounts due for clearing and balances held with settlement services providers (being commissions owed and collateral requirements). Further, in underlying product markets, business is settled on a delivery versus payment basis which reduces the risk exposure, for derivatives business all transactions are fully funded and where possible the business seeks to implement risk mitigation techniques where credit exposures are expected to persist for more than the normal settlement terms (T+3 for Bonds / equities and T+10 for loan transactions). Liquidity Risk is managed as part of this process to ensure that sufficient liquidity is available to meet foreseeable requirements and forms the majority of the Pillar 2 capital assessment.

Operational Risk: Operational risk is the risk of loss or other negative impact on the company from inadequate or failed internal processes, people and systems or from external events. It is indicated that this definition excludes systemic risks, legal risk or reputation risk. Exotix's operational risk policy includes a review to assess the risks of any deficiencies from the execution of the agreed business strategy and business plans, processes and procedures, outsourcing arrangements, management of information, relationship management and any compliance related risk. Each have been reviewed and documented as part of the ICAAP and have included an assessment of various arrangements to mitigate these and as part of an efficient and effective corporate governance structure. These include client due diligence and staff training as well as appropriate employment procedures and Business Continuity and Disaster Recovery planning. The approach adopted includes the use of a risk matrix. The purpose of the risk matrix is to identify levels of risk as well as the impact and likelihood of the occurrence of any event. It also serves to provide a measure for the assessment of the structure and performance of controls and to highlight any vulnerabilities. Although Exotix's business is relatively diverse in the number of product areas in which the firm operates, the activity is limited to specific market segments (the frontier markets that form a subset of the wider emerging markets but are characterised by lower liquidity and less price transparency).

Pillar 1 Capital Resources and Requirements, at 31st March 2011 £(000's)

	Capital	Allocation of Pillar I Capital Requirements	Capital Surplus
Tier 1 capital resources (note 1)	18,468	2,551	15,917
Tier 2 capital	0		15,917
Deductions from Tier 1 and Tier 2 capital (note 2)	11,668		4,249
Total Tier 3 capital	0	253	3,996

Surplus regulatory capital as a percentage of Pillar 1 capital requirements **142.5%**

Notes:

1. No debt or hybrid capital is included in the capital structure of the business.
2. The deduction from Tier 1 and 2 capital represents a material holding in accordance with GENPRU 2.2.209R(1)(b) that is deducted from capital merely because of its size and the deduction does not correspond to the risk profile of the asset.
3. Counterparty risk requirements of the business (£435 of the Pillar 1 capital requirement) vary according to the number of trades in the course of settlement. All other Pillar 1 capital requirements are comparatively static.
4. Operational risk requirements (£1,863 of the Pillar 1 capital requirement) are based on 15% of the average revenues of the business over the last 3-years.

Pillar 2 Assessment: Under Pillar 2 the firm is required to consider whether additional capital should be held against risks not covered in Pillar 1. For EL this assessment has been undertaken using two approaches. The first is a top down approach to look at the key risks and to reflect where EL is exposed to such potential risks. The second is a bottom up approach which is used to document key processes, identify risks and assist in the implementation of controls within the firm. The combination of these approaches producing a comprehensive analysis of the risks faced by the business. This assessment has covered financial risk comprising credit, market and liquidity risk. These are then elaborated into organisational procedures. The aim being, in addition to the operational and IT controls, to ensure the reliability of information and to implement adequate and appropriate procedures to mitigate the risks identified. The high level categories addressed cover operational risk implementation, processes and procedures, outsourcing, fraud, legal risk, business continuity and disaster recovery, liquidity risk and business risk.