

Man Group plc Pillar 3 disclosure 2009

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1. OVERVIEW

1.1 Background

Man Group operates under the Basel II capital adequacy framework. This consists of three “pillars”:

- Pillar 1 is a formal set of rules for calculating the minimum capital required by the Group to cover potential losses arising from credit, market and operational risks.
- Pillar 2 focuses on the Group’s internal capital adequacy assessment and this covers other risks (such as business risk) as well as the three risk types covered by Pillar 1.
- Pillar 3 aims to encourage market discipline through the public disclosure of the Group’s risk and capital profile. The information disclosed includes qualitative information (about the Group’s risk governance and risk and capital management processes) and quantitative information (about its risk exposures and capital). The quantitative disclosures provide data on the calculation of risk and capital resources and requirements as set out in Pillar 1.

The UK Financial Services Authority (“FSA”) supervises the Group on a consolidated basis and has set out its Pillar 3 regulations within its “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU” Chapter 11). These disclosures are made in conformity with those requirements.

1.2 Policy

This is the first full set of disclosures. Qualitative disclosures were first made at the end of calendar year 2008. These quantitative disclosures are being made in conjunction with the publication of the Man Group plc Annual Report for the year ended 31 March 2009 (“Annual Report 2009”). Disclosures under Pillar 3 will be made at least annually.

Due consideration has been given to the materiality of all required disclosures and to the question as to whether to withhold any of the required disclosures on the basis that they contain proprietary or confidential information. A number of the required Pillar 3 disclosures are included in the Annual Report 2009 and these are incorporated into this document by cross-reference.

It should be noted that these disclosures do not constitute financial statements of the Group and should not be relied on in making investment decisions in relation to the Group. The Group has not and is not required to have the Pillar 3 disclosures 2009 audited by the external auditors.

Additional information on the Group and its business is contained on page 2 of the Annual Report 2009.

1.3 Scope of application

Man Group plc is the ultimate parent of the Group and the consolidated statutory reporting is prepared on the basis set out on page 79 of the Annual Report 2009. For prudential purposes the consolidation principles are consistent with the statutory consolidation except for the following:

- Participations (associated undertakings and joint ventures) are included in the prudential consolidated group by applying proportionate consolidation;
- Empyrean Re, a subsidiary of Man Group plc, is excluded from the consolidated group for prudential purposes as it carries out the business of insurance/reinsurance. Instead the Group's investment in Empyrean Re is deducted from capital resources as a material holding. The business of Empyrean Re has been discontinued and the subsidiary is being wound down; and
- The employee trust companies, which are subsidiaries of Man Group plc for accounting purposes, are excluded from the consolidated group for prudential purposes as they are considered to be non-financial entities, whose capital is not freely transferable.

2. RISK MANAGEMENT AND GOVERNANCE

2.1 Strategies and processes for managing risk

Our strategy is to identify, monitor and measure risk throughout the Group and then, through risk management, act to mitigate these risks within the framework of our risk appetite. We maintain sufficient excess capital and substantial liquidity resources to give us flexibility both to continue to finance long term growth and to operate the business effectively under market stress situations. Much of 2008 witnessed unprecedented levels of turmoil in financial markets, with turbulence moving globally through credit, equity, commodity and currency markets. The Group's flexible business model has allowed us to adapt and navigate through these challenging markets.

Strong risk management is integral to the investment management process for our fund products. Risk management is also an essential component in maintaining a high quality, sustainable business for our shareholders.

Investors in our fund products assume the risks and rewards arising from their investment. The fund products are governed by independent fund boards. Our core investment managers provide management services or advisory services to the boards under their investment management agreements. Our core investment managers have risk management processes which actively monitor market, credit, liquidity and operational risks of underlying investment portfolios.

The Board of Directors and management are responsible for the measurement, monitoring and management of risks related to the Group. These include the risk that we might fail to perform satisfactorily the risk management services the core investment managers offer investors in the funds.

Within our risk management framework, we maintain sufficient excess capital and substantial liquidity resources to give us flexibility both to continue to finance long-term growth and to operate the business effectively under market stress situations. Risk management is the responsibility of all our people and they individually and collectively play active roles in preserving and protecting our franchise.

2.2 The Risk Management Process

There are three key elements of our risk management process:

The risk governance framework

- Establishing clear functional responsibilities and accountabilities and committee structures for the management of risk.
- Setting risk policies, delegated authorities and limits consistent with the risk appetite.
- Ensuring appropriate skills and resources are applied to risk management.

The risk appetite of the Company

- Setting the overall tolerance for a risk related loss in terms of quantitative and qualitative measures.

Risk identification, measurement and mitigation

- Assessing the potential impact on the Group of internal and external factors that might give rise to a direct or indirect loss or demand for liquidity.
- Using a range of methodologies including economic capital, value-at-risk, stress testing, scenario analysis and qualitative assessment to assess the potential impact and likelihood of the identified risks.
- The process of systematically monitoring and reporting on the Group's risk profile against its risk appetite, exposures against limits, losses and other risk related incidents, compliance issues and the effectiveness of the Group's internal controls.

2.3 Risk governance – responsibility and accountability

The ***Board of Directors*** is ultimately responsible for the framework of risk governance and risk management. The Board is responsible for determining risk strategy, setting the Group's risk appetite and ensuring that risk is monitored and controlled effectively.

The ***Audit and Risk Committee***, which comprises all the non-executive directors of the Group, provides oversight and independent challenge in relation to internal control and risk management systems. The role of the Audit and Risk Committee is described on page 50 of the Annual Report 2009 and its terms of reference are available on the Group's website (<http://www.mangrouplc.com/about-man-group/board-directors/audit-and-risk-committee.jsf>).

The Group's two principal executive risk committees, ***the Risk Assurance Committee*** and ***the Finance Committee*** have delegated authority approved by the Board of Directors and defined terms of reference.

Risk management is an essential component of both the investment management process for investors in our fund products and in our approach to maintaining a high quality, sustainable business for our shareholders.

The Risk Assurance Committee is chaired by the Chief Executive or alternately the Finance Director. The Finance Committee is chaired by the Finance Director, or alternately: the Head of Risk or the Head of Group Funding and External Relations. Membership of the two committees includes the heads of Finance, Compliance, Risk and Legal, together with relevant senior managers from across the business. The Finance Committee meets monthly and the Risk Assurance Committee meets quarterly. Minutes and papers are circulated to all members. The Committees submit regular reports to the Audit and Risk Committee of the Board.

The Risk Assurance Committee is responsible for:

- Monitoring operational risks arising from: systems, processes, people and external events and including major project, regulatory and legal risks;
- Monitoring reputation risks, whether arising directly from the Group's activities, indirectly from third parties acting on behalf of the Group or by contagion from the activities/actions of competitors;
- Monitoring the findings of and management actions in response to Internal and External Audit and Compliance programmes; and

- Developing and maintaining the integrity of the internal control infrastructure and operational risk policies.

Finance Committee is responsible for:

- Developing and maintaining the integrity of the financial control and reporting infrastructure;
- Supporting the profitable growth of the Group through the effective and active management of capital and liquidity resources, while maintaining compliance with regulatory and economic capital requirements;
- Maximising shareholder value through the optimization of capital and liquidity resources; and
- Projecting and maintaining the cross cycle financial stability of the Group to preserve shareholder value.
- The Finance Committee has delegated authority from the Board for allocation and use of capital and liquidity resources of the Group.

Senior management in the businesses are accountable for all risks assumed in their areas of responsibility and for the execution of appropriate risk management discipline within the framework of policy and delegated authority set out by the Board. The results of risk taking decisions are reflected in the economics of the businesses assuming the risk. The principle of individual accountability and responsibility for risk management is an important feature of our corporate culture.

Day to day independent and objective assessment and monitoring of risk is provided by various risk control functions at the Group level and in the business. These risk control functions include Group Risk, Finance, Legal, Compliance, Human Resources and Internal Audit. In addition, risk management functions within each core investment manager are responsible for managing risks on behalf of investors in our fund products. There are formal reporting lines and segregation of duties for the key risk, compliance, legal and finance functions.

2.4 Risk appetite

Risk appetite is the amount and type of risk that the Group regards as appropriate for it to accept in order to execute its strategy. The Board regularly reviews and sets this in the form of ten risk appetite statements, which it sets in the context of the Group's strategy and the requirements of various stakeholders, including the regulatory framework in which we operate.

Further details of the Group's risk appetite statements are included on page 41 of the Annual Report 2009.

2.5 Risk categorisation

The Group categorises its risks as follows:

- business risks;
- liquidity risks;
- market risks;
- operational risks;
- credit risks;
- non-trading book interest rate risks; and
- reputation risks.

These risks and the Group's approach to measuring and managing these risks are described in more detail in the sections that follow.

3. BUSINESS RISK

Business risk is the risk that our market leadership position may be eroded resulting in the future profitability of the Group being reduced or the sustainability of its franchise becoming impaired. These risks may arise from short term cyclical changes, fiscal and regulatory changes or from unfavourable longer-term business trends.

The key business risks faced by the Group are:

- risk of poor performance of its fund products;
- risk of reduced availability and/or increased cost of leverage for certain fund products;
- risk resulting from concentrations in investors and distribution capacity;
- risk that future regulatory change could make it more difficult to market alternative investment products to potential investors;
- risk of reduced investor appetite for the risk/return and diversification profile of alternative investment products, which could result in lower sales and higher redemptions for the Group's products;
- risk that poor fund performance and competitive pressure results in lower fees on our products;
- risk that fiscal changes either make alternative investment products less attractive for private investors when compared with traditional investment products or increase the long-term effective corporate tax rate; and
- risk that the Group's performance is adversely affected by the departure of key people.

These risks and the strategies we employ to mitigate these risks are described in more detail on pages 41 to 43 of the Annual Report 2009.

4. LIQUIDITY RISK

4.1 Overview of Potential Liquidity Requirements

The Group's strategy is to maintain sufficient liquidity to give it the flexibility to support the business through different market conditions and business cycles. The amount of the potential, but essentially discretionary and uncommitted, provision of liquidity by the Group is modelled based on scenarios that assume stressed market conditions, which include:

- reduced advance rates from the external providers of finance to the fund products;
- the effects of the de-risking of fund products;
- bridging of investor redemptions;
- the effects of gating of redemptions by third party funds in which our fund products are invested; and
- the risk of a substantial adverse move in AHL and the consequential request to fund margin calls in those structured products that include an AHL allocation.

Although the majority of these liquidity requirements are discretionary, the Board believes it has sufficient liquidity to meet these stressed modelled scenarios.

The Group, as investment manager for the funds, negotiates and arranges the financing for fund products as required by the investment strategies. The fund products operate with independent fund boards and are independent from the Group. The Group is not committed to provide financing to the fund products, other than through Committed Purchase Agreements (see 4.2 below) with certain fund products.

The Group finances its operations using the cash flow generated by its operations, a committed syndicated bank facility and finance raised in the capital markets.

At 31 March 2009 cash balances were \$2.4 billion (31 March 2008: \$1.9 billion). At the same date the Group had a committed bank facility of \$2.43 billion (2008: \$2.83 billion), which was undrawn, and total debt of \$650 million (2008: \$400 million). The committed facility was drawn for 235 days during the year, with an average drawdown of \$308 million and a maximum drawdown of \$500 million. During the period \$1.8 billion of this facility had its maturity extended by one year until June 2013. The balance continues to mature in June 2012 as originally contracted.

4.2 Committed Purchase Agreements

Committed Purchase Agreements (CPAs) are provided to certain fund products to support liquidity gaps between net investor redemptions and the redemption proceeds from allocations to underlying investment funds. As at 31 March 2009, CPAs to all fund products amounted to \$954 million (31 March 2008: \$2.65 billion). The decrease during the year is principally because of the de-risking of MGS fund products and the consequent reduction in underlying funds under management subject to CPAs.

In normal conditions these redemptions are funded from available cash resources within the fund products. The Group's potential liquidity requirement from the portfolio of these CPAs is modelled under various stress scenarios. These scenarios take into account the notice and payment period required in the redemption process, the redemption rate given the capital guaranteed nature of the product, the length of

time that liquidity is required in the redemption process of the underlying fund products and other steps to moderate redemptions or shorten the period financing if required. This analysis forms part of the stress liquidity modelling used by the Board to determine the amount of contingent liquidity required to be maintained by the Group. The Group holds adequate liquidity to meet these potential requirements through maintaining cash or cash equivalents and committed bank facilities.

4.3 Liquidity Management

The Group maintains sufficient liquidity to be able to meet (should it choose to use its discretion to do so) the modelled stressed liquidity demands for the purposes outlined in section 4.1 above. Liquidity adequacy is monitored on a daily basis and the stress scenarios are updated regularly.

The Group also has a contingency funding plan in place under which a Funding and Liquidity Taskforce would meet in circumstances of extreme liquidity stress to consider the actions that the Group should take to manage its funding requirements. These actions could include the recall of loans to funds which are, substantially, discretionary facilities repayable to the Group on demand. The plan is tested regularly to confirm its effectiveness and also to identify and address any operational issues with its implementation.

5. MARKET RISK

5.1 Overview

Market risk is the possibility that the Group may suffer a loss from market value changes in the carrying values of assets or liabilities. The taking of market risk for the purposes of earning a return on that risk is not central to the Group's overall business model. Nevertheless, whilst incidental to the business model, market risk is a distinct risk, which must be identified, quantified and managed at the business/activity level and, in the aggregate, at Group level.

5.2 Seed and Other Investments

The Group makes seed investments in the funds of early stage managers as part of the due diligence process or in newly launched products to develop a performance track record. The objective of the seed investment programme is to establish capacity for our core investment managers, from which we can earn management and performance fees in the future. The investment portfolio also includes holdings which result from sales support, product rebalancing and secondary market activities. As at 31 March 2009, seed and other investments in fund products amounted in aggregate to \$718 million (31 March 2008: \$1,279 million).

The Group calculates the market risk on these investments using a value at risk (VaR) methodology using a one month time horizon, at a 95% confidence interval. The increase in the VaR in 2009 compared with 2008 reflects the higher average level of seed investments and the increase in historical volatilities.

\$ million					2009					2008				
Other investments in fund products					718					1,279				
VaR		Close	Average	Maximum	Minimum	Close		Average	Maximum	Minimum				
		53	90	120	53	70		59	72	51				

Limits are placed on seed and other investments in funds, both at the level of the individual fund and in aggregate. These limits are set in accordance with delegated authorities approved by the Board. A series of risk measures and limits relating to proprietary investments is reviewed regularly.

5.3 Committed Purchase Agreements

In addition to the risk relating to seed and other investments held on the balance sheet, there is a risk from the potential holding in funds that arises if certain fund products exercise CPAs they have entered into with the Group. The risk for the Group is that during a period of significant redemption, for a short period of time until it could redeem its holding of the underlying funds (around three months), it would have an exposure to a fall in value in this holding. As at 31 March 2009, CPAs to all fund products amounted to \$954 million (31 March 2008: \$2.65 billion).

At 31 March 2009, the aggregate risk of loss to which the Group was exposed in relation to CPAs amounted to \$96 million (2008: \$87 million) at a one year 99.9% confidence level, taking into account the contingent nature of these exposures and the probability of a loss being incurred on any resulting holding.

5.4 Non-trading investments

The Group's only significant non-trading investments are:

- residual holdings in MF Global Limited and in exchange shares, resulting from the disposal of its brokerage business in July 2007; and
- an interest in Ore Hill's Designated Investment (DI) portfolio

These investments are classified as available for sale investments for accounting purposes and measured at fair value.

MF Global is listed on the New York Stock Exchange and the fair value of the investment in MF Global is determined by the quoted bid price at the balance sheet date. The cumulative decrease of \$126 million in fair value below cost has been treated as an impairment as at 31 March 2009.

Exchange shares are equity instruments that provide the holder the same rights to an exchange as a market seat membership. The fair values of listed exchange shares are determined by the quoted bid price at the balance sheet date. The fair values of unlisted exchange shares and memberships are determined using the exchange's internal auction process, where the last traded price is used to establish the fair value.

The Group owns an investment in Ore Hill's DI portfolio, which holds long-term interests of a less liquid nature in a number of underlying entities. This fair value of the investment is determined by reference to the value of the interests in the underlying companies. The carrying value at 31 March 2009 of \$52 million is stated after an impairment charge during the year of \$75 million.

Non-trading investments as at 31 March 2009 are as follows:

	\$ million
Residual holding in MF Global	94
Exchange shares	28
Investment in Ore Hill DI portfolio	52
Other equity investments	10
Total non-trading investments	184

The market risk on the holdings in MF Global and exchange shares, using a value at risk methodology with a one month time horizon and at a 95% confidence interval is \$30 million and \$9 million respectively (2008: MF Global \$51 million, exchange shares \$20 million).

The market risk on the holdings in the Ore Hill DI portfolio, using a value at risk methodology with a one month time horizon and at a 95% confidence interval is \$23 million (2008: not held).

5.5 Foreign exchange risk

The Group's net assets are exposed to the effect of movements in the exchange rate on financial assets and liabilities where balances are not denominated in the functional currency of the subsidiary. The main foreign exchange sensitivity is to fluctuations in the US dollar exchange rate against sterling, euro and Swiss franc balances. The

Group, from time to time, puts in place short-term foreign currency contracts to hedge the profit and loss movement on net monetary assets. At 31 March 2009, a 10% strengthening/(weakening) of the US dollar against all other currencies, with all other variables held constant, would have resulted in a foreign exchange loss/(gain) of \$12 million on these net monetary assets, with a corresponding impact on equity.

A component of the Group's revenues and costs are denominated in currencies other than US Dollars and the Group's net income is therefore also affected by movements in the US Dollar against other currencies. During the year ended 31 March 2009 the Group's non-US dollar fee income was lower by approximately \$23 million in US dollar terms as a result of movements in average exchange rates for 2009 compared to 2008, primarily in relation to the weakening of the Australian dollar. This impact was offset by favourable exchange rate movements in relation to our operating costs, a significant proportion of which are denominated in sterling and Swiss francs. The weakening of sterling against the US dollar during the year, partly offset by the strengthening of Swiss francs, reduced our costs in 2009 in US dollar terms by approximately \$18 million.

6. OPERATIONAL RISK

6.1 Overview

Operational risk is the possibility that the Group could suffer losses due to inadequate or failed internal processes, people and systems or from external events. Examples of significant risks include fraud, mis-selling of products or errors in fund prospectuses, failures of due diligence or breach of investment mandate, technology failures and fund valuation errors.

An adverse effect on the Group's reputation as a result of a significant operational failure could also result in lower sales and higher redemptions of our fund products. Lower fee income could exacerbate the negative impact of the direct operational loss.

The diversified economic capital requirement for operational risk (at a 99.9% confidence interval and one year time horizon) at 31 March 2009 amounted to \$337 million (2008: \$210 million).

The way in which the Group manages its operational risks is discussed on page 43 of the Annual Report 2009.

6.2 Insurance coverage

The Group has a programme of insurances designed to reduce its exposure to liability and to protect its assets. These are provided by a syndicate of third party insurers and financially mitigate the economic consequences of risks. Any significant changes in the risk profile of the Group are taken into account by careful mapping and tailoring of the insurance programmes to the Group's risk exposures. This approach is designed to maximise breadth of cover and certainty of response in respect of key third party liabilities, loss of our assets, business interruption and people-related exposures.

7. CREDIT RISK

7.1 Overview

Credit risk is the possibility that the Group may suffer a loss from the failure of our counterparties and customers to meet their contractual obligations. This includes the risks that the Group may suffer a loss under guarantees issued or commitments given to third parties. The Group is primarily exposed to credit risk in respect of discretionary lending to fund products managed by our core investment managers and from our cash deposits with banks. Loans to fund products were \$373 million at 31 March 2009 (31 March 2008: \$369 million). The average month-end balances of amounts owed by fund products during the year ended 31 March 2009 was \$778 million (2008: \$691 million).

It is the policy of the Group prudently to limit and control its exposure to credit risk whilst seeking to contain rather than constrain the businesses and activities of the Group in the context of regulation and by providing a credit risk framework that is the best fit for purpose.

The Group's aggregate lending to funds and the amount it lends to an individual fund are subject to limits approved under delegated authorities from the Board. The largest loan to a fund product at 31 March 2009 was \$39 million (2008: \$44 million). The credit quality of the funds is evaluated and an internal credit rating is assigned. The loans to funds are repayable on demand. Historically, there have been no credit defaults on loans to funds.

Deposit limits are set by the Board on the basis of external long-term credit ratings and movements in credit default swap rates and counterparties' share prices. The limits are applied to the rated parent company/bank and all sub-limits to subsidiaries are included in the overall limit. Exposures are aggregated for each counterparty, including all product types and business activities the Group enters into with the counterparty.

- Exposures (including foreign exchange and exchange traded products) are calculated with an add-on for stress tests where appropriate (e.g. for derivative instruments)
- All applicable netting agreements are taken into account
- Relevant collateral is deducted
- Permanent settlement failure is included

Deposits may only be placed with banks, their subsidiaries or similar financial institutions. As at 31 March 2009, total deposits with banks aggregated to \$2,361 million (31 March 2008: \$1,876 million). The largest single deposit with a financial institution was \$608 million and all cash was with banks having a single A category rating or better.

Empyrean Re, a wholly owned subsidiary, used to write short-term trade credit insurance and reinsurance on a global basis. Although it ceased to write new business in August 2008 it remains exposed to credit risk during the 'run off' period in the event that losses resulting from defaults by the underlying obligors in each reinsurance contract exceed the deductible under that contract.

Empyrean Re manages credit default risk by actively monitoring the creditworthiness of the underlying obligors and maintaining exposures within limits. The portfolio risk is modelled taking into account each reinsurance contract (including deductibles, limits, coinsurance and reinstatements) using a proprietary quantitative model. Capital market transactions are undertaken to maintain the portfolio within a risk-based limit. Empyrean Re primarily employs Moody's KMV Expected Default Frequency (EDF) to determine the probability of default (PD) and the rating.

Empyrean Re's net credit exposures at 31 March 2009 are \$238 million (2008: \$548 million). Approximately 14% of Empyrean Re's credit exposures have a rating equivalent to 'A-' or better. No single exposure is greater than \$80 million. Empyrean Re has in place a credit default swap (CDS) held with an 'A+' rated bank. The fair value of this CDS as at 31 March 2009 was \$3.6 million.

The internal credit risk modelling takes into account concentrations and correlations between exposures within the portfolio. The simulation approach used captures concentration. The credit portfolio model follows industry standard methodologies and this methodology fully takes into account the concentrations within the portfolio. The diversified economic capital requirement for credit risk (at a 99.9% confidence interval and one year time horizon) at 31 March 2009 amounted to \$130 million (2008: \$60 million).

7.2 Analysis of credit risk (and dilution risk)

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment provision is made to the extent a receivable is not considered fully recoverable.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in other expenses in the income statement.

The Group's internal classification classifies the risks on investments in funds as market risk irrespective of whether the investments are regarded as trading book or non-trading book investments for prudential purposes. The tables below exclude any investments in funds.

Total credit exposures at 31 March 2009 for prudential reporting purposes were as follows:

	\$ million
Cash and cash equivalents	2,226
Included in trade and other receivables:	297
Derivative financial instruments	7
Other receivables	290
Amounts owed by fund products	373
Total balance sheet credit risk exposure	2,896
Off-balance sheet exposure	983
Total Credit exposures	3,879

The off balance sheet exposure of \$983 million is after applying the credit conversion factors stated in BIPRU 3.7.2. The gross off balance sheet exposure is \$2,590 million. The CPAs (see Section 5.3 above) of \$954 million, which are categorised as market risk in the Group's internal risk classification, are regarded as credit risk for regulatory purposes and are included in this gross exposure of \$2,590 million.

As at 31 March 2009, credit exposures were analysed as follows:

\$ million	< 3 months	3m to 1 year	1-5 years	> 5 years	Total
Central government or central banks	6	-	1	-	7
Collective investment undertakings	626	2	-	-	628
Corporates	8	-	5	-	13
Institutions	2,349	-	-	-	2,349
Regulatory high risk categories	866	-	-	-	866
Other items	10	2	4	-	16
	3,865	4	10	-	3,879
	UK	Switzerland	Americas	Rest of world	Total
Central government or central banks	3	4	-	-	7
Collective investment undertakings	-	-	534	94	628
Corporates	7	3	-	3	13
Institutions	1,591	257	27	474	2,349
Regulatory high risk categories	11	11	543	301	866
Other items	9	2	3	2	16
	1,621	277	1,107	874	3,879
	Banks	Non-banks	Investments	Other	Total
Central government or central banks	-	-	-	7	7
Collective investment undertakings	-	-	618	10	628
Corporates	-	-	1	12	13
Institutions	2,349	-	-	-	2,349
Regulatory high risk categories	-	-	130	736	866
Other items	-	-	1	15	16
	2,349	-	750	780	3,879

As at 31 March 2009, credit exposures were analysed by ageing and impairment and geographical distribution as follows:

\$ million	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		0-3 months	3-6 months	6-12 months	> 1 year		
Central government or central banks	7	-	-	-	-	-	7
Collective investment undertakings	618	9	1	-	-	-	628
Corporates	7	-	-	-	5	1	13
Institutions	2,343	6	-	-	-	-	2,349
Regulatory high risk categories	853	13	-	-	-	-	866
Other items	16	-	-	-	-	-	16
Total financial assets	3,844	28	1	-	5	1	3,879
Geographical distribution							
UK	1,609	6	-	-	5	1	1,621
Switzerland	277	-	-	-	-	-	277
Americas	1,085	21	1	-	-	-	1,107
Other	873	1	-	-	-	-	874
	3,844	28	1	-	-	1	3,879

A financial asset is treated as impaired when its carrying value is not considered fully recoverable. Amounts are considered to be past due when a counterparty has failed to make a payment when contractually due. There were no bad debt provisions made in the period and no material movements of bad debt provisions.

As at 31 March 2009, the Credit quality assessment was as follows:

\$ million	Credit quality step	Exposure before mitigation	Exposure after mitigation
AAA to AA-	1	87	87
A+ - A-	2	2,269	2,269
CCC+ and below	6	-	-
	Unrated	1,523	1,523
Total financial assets		3,879	3,879

Under the standardised approach the Group uses ratings assigned by Moody's and Standard & Poor's. External ratings are used in the capital calculation for the 'Central government and central banks' and 'Institutions' categories of exposure class.

The average month-end credit exposure balances during the year ended 31 March 2009 were as follows:

	\$ million
Cash and cash equivalents	1,450
Included in trade and other receivables:	649
Derivative financial instruments	17
Other receivables	633
Amounts owed by fund products	778
Total balance sheet credit risk exposure	2,877
Total off-balance sheet	1,698
Total credit exposure	4,575

8. NON-TRADING BOOK INTEREST RATE RISK

The exposure to a shift in interest rates is relevant to interest rate sensitive items on the balance sheet. There are some mismatches in the Group when considering the main potentially interest sensitive assets and liabilities but the current effect of the mismatches is felt to be immaterial. The main items are cash, loans to funds, the \$400 million Floating Rate Note (FRN), the \$300 million perpetual capital securities and the \$242 million senior notes issued under the Euro Medium Term Note programme. In respect of those of the Group's monetary assets and liabilities which earn/incur interest indexed to floating rates, as at 31 March 2009, a 50bp increase/(decrease) in interest rates, with all other variables held constant, would have resulted in a \$10 million increase/(decrease) in net interest income, with a corresponding impact on equity. Interest rate risk is managed on a day to day basis by Treasury.

9. REPUTATION RISK

The maintenance of our reputation as a world leader in the investment management business is a key component of our ability to achieve our strategic objectives. Trust and integrity are essential prerequisites to maintaining our long-standing customer relationships, establishing new ones and deepening our relationships with our stakeholders. Maintaining, quantifying and evidencing transparent corporate behaviour sustains and enhances our reputation and the trust of our key stakeholders.

As a framework for our people we have a Corporate Responsibility Manual and an Ethical Policy which are available on our website. More detailed policies address issues such as our responsibilities to our people, investors, our sales and trading practices, including our approach to new products, potential conflicts of interest, anti-money laundering, whistle-blowing, data confidentiality and privacy. These policies are reviewed frequently so that they remain consistent with our high standards and meet or exceed regulatory requirements.

The Risk Assurance Committee reviews compliance with our policies and monitors key risk indicators relating to the maintenance of our reputation. The Board of Directors also reviews the Corporate Responsibility plan, annually.

9.1 Industry Best Practices

The Group believes that it is in the interests of the hedge fund sector to implement the best practice standards published in January 2008 by the UK-based Hedge Fund Working Group (www.hfsb.org). Accordingly, the Group's UK regulated entity Man Investments Limited signed as a founding member of the Hedge Fund Standards Board in respect of its Core Investment Manager, AHL. The standards address important areas of hedge fund practice including disclosures, valuation, risk management and fund governance. Man Investments Limited filed a statement of conformity at the end of December 2008.

10. CAPITAL

10.1 Types of Capital

Equity capital is maintained to absorb losses and to provide the Group with capital flexibility to grow the business. The Group calculates economic capital using a series of risk exposures and economic scenarios. It calculates the minimum amount of equity needed to absorb losses from market, credit, operational and other risks at a confidence level of 99.9% using economic capital models. At 31 March 2009, the Group had surplus economic capital of \$1.5 billion (2008: \$2.1 billion). In addition the Group is subject to the regulatory capital regime of the Financial Services Authority in the United Kingdom, the Group's primary regulator and at 31 March 2009 had surplus regulatory capital of around \$1.7 billion (2008: \$1.6 billion).

In May 2008, the Group issued \$300 million of 11% Perpetual Subordinated Capital Securities. This qualifies as Tier 1 regulatory capital and is convertible into preferred stock which is also classified as Tier 1 regulatory capital. In August 2008 the Group issued \$250 million (issued at a discount; proceeds amounted to \$242 million) of five year senior notes under the Euro Medium Term Note Programme. This debt has a fixed coupon of 6.5%. These issuances are part of our strategy to diversify our funding and tier our capital structure.

The Group has a \$400 million US dollar denominated subordinated FRN issued in September 2005 by Man Group plc. This subordinated debt qualifies as Tier 2 capital for regulatory capital purposes. It has a 10 year final maturity with a call option at year five. The subordinated debt of \$400 million qualifies as Tier 2 capital, but is excluded from the definition of capital used for the Group's internal capital modelling.

For prudential purposes no material adjustments are made to the financial statement line items relating to available for sale investments, cash flow hedges or pension fund deficits.

10.2 Economic capital

Economic capital is calculated according to the risk scenarios previously described under: market; credit; and operational risk. The calculation takes into account the diversification benefits within and between each risk category. Goodwill and investments in associates are considered to be supported by the equity of the Group.

Capital adequacy is determined by reference to risk appetite statements concerning the maintenance of a minimum credit rating level and minimum economic and regulatory capital surpluses. The target credit rating of A minus corresponds to a probability of default of approximately 0.1% in a year and, therefore, the Group sets its minimum equity requirement by reference to a 99.9% confidence interval and a one year time horizon. Man Group also wishes to hold capital as a buffer over the regulatory minimum and also wishes to maintain a buffer over the amount calculated to cover potential annual losses calculated at a 99.9% confidence interval. These buffers are intended to cover the risk that intra-month capital requirements are in excess of the amounts calculated at each month end, the risk of model error in estimating and forecasting capital requirements and the risk that the Group incurs an unexpected loss that depletes capital.

An Economic Capital Model ('ECM') is used to calculate internal capital requirements throughout the Group and this is also the basis for the regulatory Pillar 2 capital calculation. The ECM is a comprehensive assessment of all risks taken by the Group and enables senior management to form a view of the amount of capital that is adequate to support the risks identified.

An ECM has been used to calculate internal capital adequacy since the last quarter of 2004. The methodology used has been updated continuously since economic capital was first presented as a risk appetite measure to the Board. The original ECM was developed with the assistance of external experts and a review of the important elements of the model by external experts was completed in May 2007 and their recommendations have been incorporated into the current version of the model. The model will continue to be updated and enhanced as the Group's business and risk profile change and will be subject to independent expert review wherever this is necessary to validate the changes made.

There are five primary models used to calculate the economic capital. These analyse operational, credit, market and business risk with a further model bringing the risks together in order to calculate the overall capital requirement.

The models contain many assumptions and there is accordingly a risk that the choice of a particular assumption will materially affect the calculation of the overall capital requirement. While we have made conservative choices of assumptions and parameters, we recognise the potential for "model risk", particularly in its effect on the extreme tails of the loss distribution. Accordingly stress tests have been undertaken for each material risk type and for the aggregation and diversification assumptions.

10.3 Capital Resources

Capital Resources are defined under a number of different tests; including, regulatory, accounting and internal economic capital criteria. Starting with the Group Equity, each of the different tests permits or requires certain additions or deductions. Key features of the various tests are summarised below.

- Retained earnings are qualifying capital for regulatory purposes only after they have been attested by external auditors. Dividends are deducted from regulatory capital on the earlier of the approval or payment date. Dividends can be deducted for regulatory capital purposes from interim profits that have not been attested by external auditors. The Group regards unaudited retained earnings as qualifying capital for its internal model, but deducts a proportion of unaudited retained earnings to account for the potential dividend payout ratio.
- Goodwill is deducted 100% from both internal and regulatory capital.
- Intangible assets relating to upfront sales commissions are treated as qualifying capital in the internal model, where the risk of unexpected loss on the capitalised sales commissions is modelled as a business risk. These intangible assets are, however, deducted 100% from financial resources in the regulatory capital calculation.

- Material holdings are deducted 100% from regulatory capital. They are not deducted from internal capital; instead the underlying risks associated with each material holding are modelled as either market or credit risk as appropriate. The largest material holding deductions in the Pillar 1 calculation relate to the Group's residual shareholding in MF Global and its 100% shareholding in Empyrean Re.
- Subordinated debt of \$400 million qualifies as Tier 2 capital for regulatory purposes, but is treated as debt and is, therefore, excluded from the internal definition of capital.

As at 31 March 2009, the analysis of Group financial resources was as follows:

	\$million
Permitted share capital and reserves	3,843
Innovative Tier 1 Perpetual Subordinated Capital Securities	300
Less goodwill and other intangibles:	
- Goodwill on acquisitions of subsidiaries	(774)
- Goodwill on acquisitions of associates/JVs	(277)
- Commission intangible (FEL)	(317)
- Other intangibles	(49)
Available Tier 1 Group capital	2,726
Tier 2 capital - subordinated debt	399
Tier 2 capital - revaluation reserves	-
Material holdings deduction –MF Global residual holding	(94)
Other material holdings deductions	(288)
Group Financial Resources	2,743

As at 31 March 2009, the Pillar 1 minimum capital requirement was as follows:

	\$million
Credit risk- standardised approach	
Collective investment undertakings (CUI)	146
Corporates	2
Institutions	38
Regulatory high risk categories	95
Other	32
Total Credit risk	313
Operational risk – Standardised approach	274
Market risk	
CIU PRR	17
Foreign Currency PRR	46
CIU PRR	51
Total market risk	114
Total Pillar 1 capital requirement	701

The non-trading book proprietary investments are subject to a credit risk charge under the BIPRU Pillar 1 rules and included in credit risk (CIU) in the table. The risk associated with such investments is the possibility that the Group may suffer a loss from a reduction in the market value of these investments. The risks associated with such investments are treated as market risk in the Group's internal models and are described in Section 5 above.

10.4 Transferability of capital

The Group considers that the full amount of its equity is available to meet a loss incurred in any of its subsidiaries with the exception of some reserves relating to employee trusts. The accounts of the employee trusts are included in the Group

accounts. Nevertheless the employee trusts are controlled by independent trustees and their assets are held separately from those of the Group. Under the terms of the trust deed, the assets can only be used for the benefit of the Group's employees and are not, therefore, considered available to meet losses incurred by the Group. Hence the employee trusts are excluded from the Group for prudential purposes.

In all other respects capital is considered to be freely transferable.