

Man Group plc Pillar 3 disclosure 31 March 2010

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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

Quantitative 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 2010 (“Annual Report 2010”). Disclosures under Pillar 3 are 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.

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 2010 audited by the external auditors.

1.3 Scope of application

Man Group plc is the ultimate parent of the Group and the consolidated statutory financial statements are prepared on the basis set out on page 40 together with the notes to the Annual Report 2010. 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 and resources are not freely transferable.

2. RISK MANAGEMENT AND GOVERNANCE

2.1 Approach to managing risk

Our approach is to identify, monitor and evaluate 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.

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

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

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 Group

- Setting the risk appetite of the Group in terms of the amount of risk considered appropriate in order to execute our strategy.

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 the risk profile against risk appetite, exposures against limits, losses and other risk related incidents, compliance issues and the effectiveness of our 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 four of 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 83 of the Annual Report 2010 and its terms of reference are available on the Group's website (<http://www.mangroupplc.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.

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.

The Finance Committee is responsible for:

- Actively managing, including the allocation and use of, the Group's capital and liquidity resources, with the goal of supporting the Group's growth and maximising shareholder value;
- Developing and maintaining the integrity of the financial control and reporting infrastructure;
- Developing and maintaining financial risk policies and methodologies, and maintaining compliance with regulatory requirements relating to capital and liquidity

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 a description of 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 its risk appetite in the context of the Group's strategy and the requirements of various stakeholders, including the regulatory framework in which we operate. In the course of its regular review of risk appetite in 2009, the Board reduced its tolerance for market risk losses and risk limits were reduced to reflect this.

Further details of the Group's risk appetite statements are included on page 23 of the Annual Report 2010.

2.5 Risk identification

The Group identifies and categorises its risks as follows:

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

These risks and the Group's approach to measuring and managing them 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.

The key business risks faced by the Group are:

- reduced investor appetite for alternative investment products;
- underperformance and potential de-gearing of fund products;
- effectiveness of the risk management services performed on behalf of the fund products in the investment management businesses;
- product profitability, including the effects of competitor pressures and market dynamics
- potential concentration of investors or distribution partners;
- regulatory changes affecting either the appetite of investors, the costs of structuring, the capital required by fund counterparties, or the ability to access certain markets;
- reduced availability and/or increased cost of leverage for certain fund products;
- fiscal changes which either increase the long-term effective corporate tax rate or adversely affect alternative investment products as compared with traditional investment products; and the
- loss of key individuals.

These risks and the strategies we employ to mitigate these risks are described in more detail on pages 23 to 25 of the Annual Report 2010.

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 2010 cash balances were \$3.2 billion (31 March 2009: \$2.4 billion). At the same date the Group had a committed bank facility of \$2.43 billion (2009: \$2.43 billion), which was undrawn, and total debt of \$1.43 billion (2009: \$0.65 billion). \$0.6 billion of the committed facility matures in 2012, with the balance maturing in June 2013.

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 2010, CPAs to all fund products amounted to \$556 million (31 March 2009: \$954 million). The decrease during the year is primarily the result of the 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

With the exception of CPAs, the Group has the discretion as to whether it chooses to provide liquidity support to any of its fund products. The Group models stressed liquidity demands for the purposes outlined in section 4.1 above and maintains sufficient liquidity to have the flexibility to meet these requests if it chooses to do so in the interest of maintaining the value of its business franchise for its shareholders. 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 Investments in fund products

Investments in fund products are early stage 'seeding' investments, secondary market and sales support investments which are 'liquidity' investments to aid investors wishing to buy and sell investments in the fund products, or investments in the equity and debt tranches of collateralised products which are the result of contractual obligations to facilitate external investment in fund products and external fund financing. The Group holds seeding investments for various reasons including: to establish track records for products; to seed new alpha strategies; to seed single managers to test alpha generation; and to co-invest with institutional investors. As at 31 March 2010, seed and other investments in fund products amounted in aggregate to \$411 million (31 March 2009: \$718 million). The decrease in these investments from the prior year reflects the Board's strategy to reduce balance sheet exposure in the current volatile market conditions.

The fair values of investments in fund products are derived from the reported Net Asset Values (NAVs) of each of the fund products, which in turn are based upon the value of the underlying assets held within each of the fund products and the timings of being able to redeem the fund product. The valuation of the underlying assets within each fund product is determined by external valuation service providers (VSP) based on an agreed valuation policy and methodology. Whilst these valuations are performed independently of the Group, the Group has established oversight procedures and due diligence processes to ensure that the net asset values reported by the VSP are reliable and appropriate. The Group makes adjustments to NAVs where the timing of being able to redeem the fund product or events or circumstances indicate that the NAVs are not reflective of fair value.

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 decrease in the VaR in 2010 compared with 2009 reflects the reduced level of investments in fund products.

\$ million					2010				2009			
Other investments in fund products					411				718			
VaR		Close	Average	Maximum	Minimum	Close	Average	Maximum	Minimum			
		33	53	62	33	53	90	120	53			

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.

At 31 March 2010, the aggregate risk of loss to which the Group was exposed in relation to CPAs amounted to \$34 million (2009: \$96 million) at a one year time horizon and 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 Other investments

Non-trading investments as at 31 March 2010 are as follows:

	\$ million
Investment in Ore Hill DI portfolio	67
Other	5
Total non-trading investments	72

The Group has an interest in Ore Hill's Designated Investment (DI) portfolio, which holds long-term interests of a less liquid nature in a number of underlying entities. This is classified as an available for sale investment for accounting purposes and measured at fair value. 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 2010 was \$67 million (31 March 2009: \$52 million)

At 31 March 2010, the aggregate risk of loss to which the Group was exposed in relation to the market risk on the holdings in the Ore Hill DI portfolio amounted to \$63 million (2009: \$44 million) at a one year time horizon and 99.9% confidence level.

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. At 31 March 2010, 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 \$2 million, with a corresponding impact on equity (2009: \$12 million loss/gain).

The Group's income is derived largely from fees on funds under management (FUM), a proportion of which are denominated in currencies other than the US dollar. Funds under management denominated in foreign currencies increased by \$1.3 billion during 2010 as a result of a weaker US dollar. A further breakdown of the net FX gains is given on page 32 of the 2010 Annual Report.

The main foreign exchange sensitivity is to fluctuations in the US dollar exchange rate against sterling and the Swiss franc as the majority of its fee income is in US dollars and the majority of its expenses are in sterling and Swiss francs. The Group, from time to time, puts in place short-term foreign currency contracts to hedge these costs.

6. CREDIT RISK

6.1 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 2010 (31 March 2009: \$373 million). The average month-end balances of amounts owed by fund products during the year ended 31 March 2010 was \$559 million (2009: \$778 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 2010 was \$18 million (2009: \$39 million). All loans are subject to strict underwriting guidelines and 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.

Deposits may only be placed with banks, their subsidiaries or similar financial institutions. As at 31 March 2010, total deposits with banks aggregated to \$3,229 million (31 March 2009: \$2,361 million). The largest single deposit with a financial institution at 31 March 2010 was \$557 million (31 March 2009: \$608 million) and all cash was with banks having a single A category rating or better.

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

Empyrean Re, a wholly owned subsidiary, used to write short-term trade credit insurance and reinsurance on a global basis. Empyrean Re ceased to write new business in August 2008 and during the year ended 31 March 2010 all existing policies were terminated or ceded to other reinsurers (rated A or A+ by external credit rating agencies). The remaining exposure to Man Group has, therefore, been reduced

to minimal. The Group's 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 all credit risk exposures (at a 99.9% confidence interval and one year time horizon) at 31 March 2010 amounted to \$170 million (2009: \$130 million).

6.2 Analysis of credit risk (and dilution risk)

Receivables, including loans to funds, 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.

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 costs in the income statement.

Included within trade and other receivables is a derivative asset resulting from a variable forward sale of the Group's residual holdings in MF Global. The terms of this variable forward sale are described in Note 4 (d) on page 49 of the Annual Report 2010. The VFS Agreement is measured at fair value and is included in 'Trade and other receivables' in the Group's balance sheet. The notional value of the VFS Agreement at 31 March 2010 was \$132 million (31 March 2009: nil) and its fair value at 31 March 2010 was \$23 million (31 March 2009: nil). The VFS provided the Group with gross initial proceeds of \$112 million resulting in a net gain of \$34 million. The market risk on the VFS derivative, using a value at risk methodology with a one month time horizon and at a 95% confidence interval is equal to the fair value of the derivative of \$23 million as at 31 March 2010 (31 March 2009: nil). The VFS was closed out on 26 May 2010 and mark to market losses of \$4 million were recorded between 31 March 2010 and the date of close out.

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 2010 for prudential reporting purposes were as follows:

	\$ million
Cash and cash equivalents	3,115
Included in trade and other receivables:	230
Derivative financial instruments	26
Other receivables	204
Amounts owed by fund products	373
Total balance sheet credit risk exposure	3,718
Off-balance sheet exposure	308
Total Credit exposures	4,026

The off balance sheet exposure of \$308million (31 March 2009: \$543 million) is after applying the credit conversion factors stated in BIPRU 3.7.2. The gross off balance sheet exposure is \$620 million (31 March 2009: \$895 million). The CPAs (see Section 5.3 above) of \$556 million (31 March 2009: \$655 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 \$620 million. The remaining off-balance sheet exposure of \$64m consists primarily of guarantees.

As at 31 March 2010, credit exposures were analysed as follows:

\$ million	< 3 months	3m to 1 year	1-5 years	> 5 years	Total
Central government or central banks	7	-	0	1	8
Collective investment undertakings	534	10	-	-	544
Corporates	5	-	5	-	10
Institutions	3,119	-	23	-	3,142
Regulatory high risk categories	307	-	-	-	307
Other items	12	1	2	-	15
	3,984	11	30	1	4,026
	UK	Switzerland	Americas	Rest of world	Total
Central government or central banks	5	3	-	-	8
Collective investment undertakings	-	-	369	175	544
Corporates	1	4	4	1	10
Institutions	1,679	31	16	1,416	3,142
Regulatory high risk categories	-	-	161	146	307
Other items	4	2	7	2	15
	1,689	40	557	1,740	4,026
	Banks	Non-banks	Investments	Other	Total
Central government or central banks	-	-	-	8	8
Collective investment undertakings	-	-	544	-	544
Corporates	-	-	-	10	10
Institutions	3,142	-	-	-	3,142
Regulatory high risk categories	-	-	69	238	307
Other items	-	-	7	8	15
	3,142	-	620	264	4,026

As at 31 March 2010, 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	8	-	-	-	-	-	8
Collective investment undertakings	527	16	1	-	-	-	544
Corporates	10	-	-	-	-	-	10
Institutions	3,142	-	-	-	-	-	3,142
Regulatory high risk categories	307	-	-	-	-	-	307
Other items	13	1	-	-	-	1	15
Total financial assets	4,007	17	1	-	-	1	4,026
Geographical distribution							
UK	1,689	-	-	-	-	-	1,689
Switzerland	40	-	-	-	-	-	40
Americas	551	6	-	-	-	-	557
Other	1,729	11	-	-	-	-	1,740
	4,009	17	-	-	-	-	4,026

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 2010, the Credit quality assessment was as follows:

\$ million	Credit quality step	Exposure before mitigation	Exposure after mitigation	Mitigation
AAA to AA-	1	894	894	
A+ - A-	2	2,223	2,200	23
BBB+ and below	3-6	43	43	
	Unrated	866	866	
Total financial assets		4,026	4,003	23

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 2010 were as follows:

	\$ million
Cash and cash equivalents	2,242
Included in trade and other receivables:	381
Derivative financial instruments	19
Other receivables	362
Amounts owed by fund products	559
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Total balance sheet credit risk exposure	3,163
Total off-balance sheet	585
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Total credit exposure	3,749

7. 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 2010, a 50bp increase/decrease in interest rates, with all other variables held constant, would have resulted in a \$14 million increase/\$9 million decrease in net interest income, with a corresponding impact on equity (31 March 2009: \$10 million increase / decrease). Interest rate risk is managed by Treasury in accordance with delegated authorities from the Group board.

8. OPERATIONAL RISK

8.1 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 2010 amounted to \$266 million (2009: \$337 million).

The way in which the Group manages its operational risks is discussed on page 69 of the Annual Report 2010.

8.2 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.

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. Ensuring the sustainability of the business and winning the trust of our shareholders and stakeholders are fundamental to the role of the Board and the success of the Group. Maintaining, quantifying and evidencing transparent corporate behaviour sustains and enhances our reputation and the trust of our key stakeholders.

Man Group is fundamentally a people business; attracting the best, motivating them to excel, retaining them and ensuring that they progress in their careers are fundamental to the sustainability of our franchise. As a framework for our people, the Group has adopted the following values –

- Ambition, to be top quartile in performance and excellence in client service
- Integrity in every action we take
- Entrepreneurialism to challenge and change
- Collaboration based on mutual respect
- Open communication without hierarchy

The group's values, and the behaviours they encourage, define the working environment which sets us apart to compete for outstanding talent. This is reinforced by both remuneration policy and a high level of employee engagement and support.

Employee behaviour is also determined by the Group's policy framework, addressing issues such as our responsibilities to our people, investors, our sales and trading practices, including our approach to new products, potential conflicts of interest, gifts, 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.

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 AHL investment management business. The standards address important areas of hedge fund practice including disclosures, valuation, risk management and fund governance. Man Investments Limited annually files a statement of conformity with the standards, most recently in January 2010.

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 combination of stochastic modelling and scenario analysis. 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 2010, the Group had surplus economic capital of around \$1.5 billion (31 March 2009 : \$1.5 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 2010 had surplus regulatory capital of around \$1.5 billion (31 March 2009: \$1.7 billion).

The Group has \$300 million of Perpetual Subordinated Capital securities, which qualify as Tier 1 regulatory capital and are convertible into preferred stock which is also classified as Tier 1 regulatory capital. The Group also 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-/BBB⁺ 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.

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.
- The defined benefit pension scheme asset must be derecognised, therefore is deducted 100% from capital.
- 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 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 2010, the analysis of Group financial resources was as follows:

	\$million
Share capital and reserves	3,687
Innovative Tier 1 Perpetual Subordinated Capital Securities	300
	3,987
Other deductions from share capital and reserves*	(163)
Less goodwill and other intangibles:	
- Goodwill on acquisitions of subsidiaries	(798)
- Goodwill on acquisitions of associates/JVs	(282)
- Commission intangible (FEL)	(278)
- Other intangibles	(59)
Available Tier 1 Group capital	2,407
Tier 2 capital - subordinated debt	400
Other material holdings deductions	(200)
Group Financial Resources	2,607

*Other deductions from share capital and reserves comprise dividends paid in excess of unaudited retained earnings, Innovative Tier 1 coupon payments, capital and reserves relating to the Employee Trust, Emyrean Re and Associates, and the defined benefit pension scheme asset.

As at 31 March 2010, the Pillar 1 minimum capital requirement was as follows:

	\$million
Credit risk- standardised approach	
Collective investment undertakings (CUI)	121
Corporates	1
Institutions	50
Regulatory high risk categories	36
Other	14
Total Credit risk	222
Operational risk – Standardised approach	281
Market risk	
CIU PRR (DOOA/Trading)	14
Foreign Currency PRR	12
CIU PRR	21
Total market risk	47
Total Pillar 1 capital requirement	550

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.