

Knight Capital Europe Limited

**Capital Requirements Directive
Pillar 3 Disclosure Statement**

31 December 2011

Index

Background	3
Knight Capital Group Consolidation	3
Definition of Capital Resources and Capital Resource Requirement	4
Capital Resources	
- Tier 1	4
- Tier 3	4
Capital Requirements	
- Pillar 1	5
- Pillar 3	5
Risk Assessment and Management	
- Board Of Directors and Committee Structure	6
- Internal Audit	6
Risk Exposures	
- Business Risk	7
- Credit Risk	7
- Market Risk	8
- Operational Risk	9
Other Risks	10
Capital Adequacy	10

Background - Pillar 3 Disclosure

The Basel II Accord has been implemented in the European Union through the Banking Consolidation Directive and the Capital Adequacy Directive collectively known as the Capital Requirements Directive (“CRD”), which came into effect on 1 January 2007 and was implemented in the UK through new UK Financial Services Authority (“FSA”) rules, the FSA Prudential Rule Book for Banks, Building Societies and Investment Firms (“BIPRU”), BIPRU 11.

Knight Capital Europe Limited (“KCEL” or “the Company”) is required by the FSA under BIPRU 11.3.8R to provide detailed information of its capital structure and capital adequacy in order to provide all stakeholders and interested parties, with key information relating to KCEL’s capital, risk exposures and risk assessment process.

The Accord consists of three ‘pillars’. Pillar 1 sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk. Under Pillar 2, firms and regulatory supervisors are required to assess the appropriateness of the Pillar 1 level of capital the Firm requires, taking into account risks not covered in Pillar 1. The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess certain specified information in relation to capital adequacy, particular risk exposures and risk management processes.

This Pillar 3 disclosure statement made in accordance with BIPRU, and is required to be made at a minimum on an annual basis or alternatively, when significant and material changes to the business occur as per BIPRU 11.4.4. All disclosures are made on the basis of FSA rules and definitions and all are complete and in a single location.

Knight Capital Group Consolidation

KCEL is not part of a Group for the purposes of the BIPRU. KCEL is the UK subsidiary of Knight Capital Holdings, LLC and, ultimately, Knight Capital Group, Inc. (“KCG”).

KCG is listed on the New York Stock Exchange and is required, by the U.S Securities and Exchange Commission (“SEC”), to file public disclosures including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. These disclosures can be found at:

<http://www.knight.com/investorRelations/SECFilings.asp>

In the view of the KCEL Board of Directors (“the Board”), the KCG SEC filings provide comparable disclosures provided on a consolidated basis by a parent undertaking whose head office is not in an EEA State and we may therefore apply for a waiver from the relevant disclosure requirements in FSA BIPRU 11.2.2 R - BIPRU 11.2.5 R.

Within the Form 10-K, KCG has provided a set of risk disclosures which allow market participants to conduct an assessment regarding its capital, risk exposures and risk assessment processes. Specific, additional information on KCEL risk management can be found in the KCEL audited financial statements in the Director’s Report (pages 7 –14) and the in the main body of the

financial statements (pages 25-32). This Pillar 3 statement of disclosure is published simultaneously with the financial statements.

The Board of Directors of KCEL has adopted a formal policy with regard to the disclosure frequency, content and verification of accuracy of disclosures in the Pillar 3 statement.

Definition of Capital Resources and Capital Requirements

In accordance with the FSA Handbook, KCEL is required to maintain financial resources, that is financial assets and other resources, in excess of its financial resources requirement (the "Solvency Ratio"), which is the amount of money KCEL needs for normal operations and the amount of cash and easily liquidated assets required to meet FSA regulations. As of 31 December 2011, KCEL maintained a Solvency Ratio of 403% or capital resource coverage of over four times capital resource requirement. This is significantly in excess of the minimum requirements of the FSA BIPRU Rules.

Capital Resources

KCEL Capital Resources consist of Tier 1 and Tier 3 Capital. Tier 1 capital is permanent capital which is available to absorb losses, ranks for repayment on winding up after other debts and has no fixed costs attached. Tier 3 capital includes subordinated debt, undisclosed reserves and general loss reserves.

Tier 1 and Tier 3 Capital

The firm's Tier 1 capital comprises ordinary shares and retained earnings. KCEL has no Intangible assets to deduct. The calculation below is in accordance with FSA requirements.

Tier 1 Capital	£'000s	
Ordinary shares	66,488	
Retained earnings	(7,296)	£59,192

KCEL has no Tier 2 Capital.

The firm's Tier 3 capital resources comprises short terms subordinated debt loaned from KCG less the net interim trading profit and loss account unaudited at 31 December 2010.

Tier 3 Capital	£'000s	
Short Term Subordinated Debt	20,000	
Net Interim Trading Book Profit & Loss	1,096	£21,096

KCEL total capital is therefore £80,288 million as at 31 December 2011.

Capital Requirements

Pillar 1

KCEL calculates Pillar 1 capital requirements in accordance with the regulatory capital requirements of the EU Capital Requirements Directive, implemented and applied in the UK by the FSA. Pillar 1 is the calculation of the minimum capital resources that KCEL must hold. The capital resources required to cover the various risk exposures to the firm is broken down into the following types in accordance with regulatory rules:

- A Credit Risk Requirement arises from securities transactions entered into by KCEL where the transaction fails to settle.
- A Market Risk Requirement arises from capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors in relation to KCEL's Trading Book activities. This is the risk that arises from fluctuations in interest rates, securities prices or foreign exchange rates. KCEL applies strict limits in order to mitigate the risk of loss and exposures monitored by an independent risk function.
- An Operational Risk Requirement is taken in direct relation to the net revenue of KCEL under the FSA permitted Basic Indicator Approach. This requirement represents the risk of loss arising from inadequate or failed internal processes, staff and systems or from external events. KCEL acknowledges that operational risk can never be completely eliminated but seeks to minimize the probability and mitigate any impact.

Pillar 2

Pillar 2 represents a review process used by both KCEL and the FSA to assess if the additional capital deemed as necessary by KCEL to supplement the Pillar 1 calculation is adequate.

KCEL uses a "Pillar 2 add-on" approach in order to meet its obligations under BIPRU 2.2 "Internal capital adequacy standards". An assessment is made as to whether the Pillar 1 minimum capital requirement captures sufficiently Pillar 1 risks and whether additional capital should be allocated against Pillar 2 and external risks.

KCEL maintains a Risk Register as an appendix to its ICAAP document and allocates capital requirements to identified risks using an impact and probability model. This involves an analysis of all exposures and associates a designated level of risk which attracts an allocation of capital deemed necessary by KCEL to cover the particular risk.

KCEL's Board, via the KCEL Risk Committee and the independent Risk function, assess internal capital adequacy, as required by Pillar 2, on a regular basis and at least annually. Pillar 2 capital adequacy assessments will involve amongst other things:

- a consideration of the firm's current and planned activities including their impact on the firm's control infrastructure;
- stress and scenario testing as considered appropriate to the nature of the firm's activities;

- other risks as required by Pillar 2 and as determined by the Board.

Risk Assessment and Management

Board of Directors and Committee Structure

KCEL has a clearly defined and documented governance structure comprising at the highest level the Board, the KCEL Risk Committee, other sub-committees of the Board and Executive Committees.

Decision making responsibility at KCEL rests ultimately with the Board. This is cascaded through the organization through the delegation of responsibility to the main committees and through senior manager documented responsibilities. Although responsibility is delegated the Board maintains overall responsibility for the strategy of KCEL and compliance with all laws and regulations.

The Risk Committee, The Remuneration Committee, The London Management Group Committee, The Support Managers Committee, The New Business Committee and a sub group of the Risk Committee, The Capital & Liquidity Committee have delegated responsibilities as defined in their Terms of Reference to oversee key elements of risk. Sub committees meet monthly, some quarterly and at least one Board member attends each. Additional ad hoc meetings are called if required.

The Board has overall responsibility for the firm's systems and controls, including its risk management policies and procedures, the objectives of which are the safeguarding of the firm's assets, the maintenance of proper accounting records and the availability of reliable financial information for use within the business and for public reporting.

The Board is tasked with defining the KCEL risk appetite for each of the inherent risks in the business, each of which is captured in the firm's Risk Register. For each of the identified risks, the Board has a risk appetite of medium or low risk.

The Board regularly reviews on a quarterly basis the effectiveness of the firm's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks which was in place throughout the year. The firm's internal controls include appropriate levels of authorisation and segregation of duties. Financial reports are presented to the Board on a quarterly basis detailing the results, variances against forecast and other performance data.

Internal Audit

KCG has an internal audit department and an audit plan and KCEL's business is included within the scope of the Internal Audit Department. The suitability and effectiveness of the firm's internal controls and risk management are discussed both at the Board Meeting and Risk Mitigation and Support Manager Group Committees. In addition, the ongoing monitoring of compliance, financial and operational controls and risk management is discussed. Conclusions are reported upwards to the KCEL Board which is able to assess, with reasonable assurance, that an appropriate framework for systems and controls has been maintained throughout the year.

The KCEL Internal Capital Adequacy Assessment Process (“ICAAP”) and Individual Liquidity Assessment Adequacy Assessment (“ILAA”) will be subject to review and approval by the Board on at least an annual basis. In addition, these documents will be subject to review by Internal Audit on an annual basis. This document will also form part of that review.

Risk Exposures

KCEL Risk Committee (“RiskCo”)

Membership of the RiskCo comprises the Chairman, appropriate KCG and KCEL Executive managers and a Non-Executive Director, with the overriding requirements that key areas of the Company’s business are represented by at least one RiskCo member with appropriate competency and a minimum of 5-years experience in the relevant business area, and at least one member that holds a senior position within, and represents the Group Legal/Compliance function and another that represents the Group Finance function.

The KCEL Risk Committee is chaired by the Chief Risk Officer and meets at least once a quarter and in addition the CRO provides monthly risk reports to the risk committee members

The RiskCo operates under the delegated authority of the KCEL Board with responsibility for:

- Developing the vision and strategy for risk management for the Company for approval by the Board;
- Designing and implementing policies and procedures designed to deliver effective oversight of risk management of the Company’s business.
- Providing independent review of business activities to ensure that the risks being taken are within the Risk Appetite set by the board.
- Providing direction to the CRO and ratifying delegated approvals.

The chairman of the committee reports to the board at regular intervals on the matters it has reviewed making recommendations when requested or when he considers appropriate. The RiskCo Secretary circulates the minutes of the meetings of the committee to all members of the board and members of the committee.

The Chairman also works with the Chairman of the KCG Risk Committee to ensure that the RiskCo takes appropriate direction from and maintains appropriate communication with the KCG Risk Committee.

Business Risk Management

The Board have concluded that certain key events could result in loss of business and therefore profitability i.e. movement in the various global trading markets could result in a material reduction in market prices and significantly lower revenue, similarly the same result could occur with decreases in market volumes, reputation damage and loss of market share, an intensification of competitive pressures or just increased competition.

The Board believes these risks are mitigated through the diversification of businesses in the Company, supported by a further diversification of products, clients and markets. Furthermore, the liquidity and capital structure of the parent company provides strong support for KCEL, which mirrors the parent company in terms of liquidity and capital coverage.

Credit Risk Management

The risk to KCEL is that a client or market counterparty (which may include KCEL affiliates) fails to meet its trade settlement obligation. KCEL bears the risk if issuers whose securities or other instruments it holds, customers, trading counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries or guarantors default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Wholesale and institutional trades are primarily conducted on the basis of "delivery versus payment", which minimises the risk of exposure to more substantial trading positions. This does not however eliminate risk entirely in circumstances in which the counterparty fails and the value of stock awaiting settlement against payment has changed adversely. Such defaults could have an adverse effect on the Company's financial results, financial condition and cash flows.

KCEL has a diversified client basis and no material concentration of counterparty risk outside of its affiliates. The KCEL Board does not consider that, given the breadth of its client base and scope of activities, there is a significant risk of individual client default impacting the viability of the overall business. Pre-settlement exposure to clients is monitored by the Company's Risk management function, and KCEL has effective procedures in place to identify and manage potential settlement failure. All of KCEL's business activities are short-term in nature – the vast majority is conducted under a T+3 settlement cycle, or less. This enables KCEL management to respond very quickly in the event of emerging risk issues arising from overall exposure to, and/or the specific creditworthiness of, a particular counterparty or group of counterparty.

KCEL holds regulatory capital against the risk of counterparty default, and this has been assessed based on the Pillar 1 requirements of the EU Directive (calculated using the "standardised approach") as £2,466k at 31 December 2011. The Pillar 2 requirement KCEL has calculated is lower so no additional add on is required.

An aged analysis of the maturity of KCEL's financial liabilities is provided in note 3 of the Financial Statements for the year ended 31 December 2011.

Market Risk Management

Some of KCEL's client business is conducted on a 'riskless' basis, the only risk in such circumstances being of counterparty failure, which is addressed under "Credit Risk Management" above.

KCEL does conduct a large amount of client business as principal and also conducts proprietary trading business in cash equities, ETFs and exchange-traded futures instruments. These activities subject our capital to risks. These activities involve the purchase, sale or short sale of securities and other instruments for our own account and, accordingly, involve risks of price

fluctuations and illiquidity, rapid changes in the liquidity of markets that may limit or restrict our ability to either resell securities or other instruments we purchase or to repurchase securities or other instruments we sell in such transactions at market values.

KCEL also incurs currency exposures primarily through foreign currency risk on profits / losses. We run positions in a variety of currencies to support the working capital requirements of the firms various business lines. Policy requires any significant net exposures to be closed out through spot FX transactions on a transaction-by-transaction basis as soon as a commitment is made. Other exposures arising from fluctuations in the working capital requirements of the business are managed through month-end spot FX transactions and, therefore, expose the Company to a small amount of intra-month FX exposure.

Material changes in interest rates will affect KCEL's income and expenses but in the view of the Board they do not pose a significant risk to the firm.

Market risk is conducted within risk limits approved through KCEL's governance framework. Trading books are maintained on a largely market-neutral basis and intra-day market risk is monitored by the firm's business and risk managers. Position taking will incur losses as well as profits, within the firm's risk tolerance, and are expected so long as the "trend" in revenue generation is positive.

KCEL holds an excess of regulatory capital against the risk of loss arising from market risk, and this has been assessed based on the Pillar 1 requirements of the EU Directive (calculated using the "standardized approach") as £6,483 at 31 December 2011 and within KCEL's capital buffer using defined stress tested scenarios. The Pillar 2 requirement KCEL has calculated is lower so no additional add on is required.

Operational Risk Management

Operational risk is an accepted part of KCEL's business, rising, inter alia, from the specific risks below. KCEL's systems and controls are designed to minimise the probability and impact of operational risk crystallising:

The Company's primary operational risk, as defined by the KCEL Board, includes:

- Loss of significant portion of commission revenue
- Business contraction risk
- Business expansion risk
- Competitor risk
- Diversification risk
- Loss of business critical services outsourced to a 3rd party provider
- Loss of access to core systems required to meet the internal and client facing needs of various business activities
- Loss of critical IT support for core systems and technology
- Loss of clearing
- Processing risk arising from KCEL's high-volume business activities
- Financial loss due to human error
- Unauthorised access to core systems

- Financial loss from fraudulent use of company funds
- Unresolved issues and errors in accounting and reconciliations
- Regulatory failures
- Systems and controls failures
- Inadequate policies and procedures
- Health and safety failures
- Key man risk
- Inadequate HR procedures

Technology risk is a major component of operational risk within KCEL. KCEL operates a number of business activities which have a high-level of technology dependency and capacity constraints, systems failures and delays could harm those businesses. The Company's business activities are heavily dependent on the integrity and performance of the computer and communications systems supporting them and the services of certain third parties. The Company's systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism, terrorism and other similar events. Extraordinary trading volumes or other events could cause the Company's computer systems to operate at an unacceptably low speed or even fail. KCEL, and KCG overall, have invested significant amounts of capital to upgrade the capacity, reliability and scalability of their systems, but there can be no assurance that such systems will be sufficient to handle extraordinary trading volumes.

KCEL has developed business continuity capabilities that can be utilized in the event of a disaster or disruption but such an event would like have a material impact of the financial performance of KCEL. Since the timing and impact of disasters and disruptions are unpredictable, KCEL has to be flexible in responding to actual events as they occur. Significant business disruptions can vary in their scope. The severity of the disruption can also vary from minimal to severe. KCEL's business continuity arrangements are designed to allow it to substantially continue operations if employees are prevented from accessing or utilizing its primary offices for an extended period of time and/or conduct an orderly short-term wind down of affected activities.

KCEL's business areas and support functions manage all aspects of operational risk through applicable controls and loss mitigation techniques, including use of insurance. These activities include a balance of policies, procedures and internal controls to ensure compliance with laws and regulations. Further assurance is provided by KCG internal audit and KCEL compliance departments.

KCEL holds an excess of regulatory capital against its operational risk requirement, and this has been assessed based on the Pillar 1 requirements of the EU Directive (calculated using the "standardized approach") as £10,944k. KCEL considers this to be an acceptable alternative calculation for operational risk given the risk profile and business of the company.

Other risks

KCEL's business is exposed to other risks, including liquidity risk, legal risk and reputational risk.

Liquidity Risk

KCEL uses both its own Capital resources and borrowing facilities in order to finance its business activities. In the event that borrowing resources are not available there is a business risk and potentially a reputational risk. Alternatively borrowing might have to be made at higher interest rates impacting upon the profitability of the firm. Whilst KCEL has the full support of its parent company it seeks to be financially independent and manages its resources accordingly.

Liquidity risk is managed by the firm's Chief Risk Officer and overseen by the firm's Capital and Liquidity Committee. The Finance Department produces a daily report which is sent to senior management detailing the current excess liquidity available. In 2012 it is planned that Finance will be responsible for producing liquidity projections.

Policies and procedures are captured in the firms ILAA, as required by the FSA.

Legal Risk is managed by the Company's Legal Department and overseen by the firm's senior management and KCG's General Counsel.

Reputational risk is managed by the KCEL Board.

Capital Adequacy

KCEL assesses the Company's capital adequacy needs with a view to supporting the firm's current and future activities in a number of different ways. Pillar 1 capital adequacy is monitored for compliance with capital requirements, and is reviewed formally by the Board on a monthly basis. The Board will then consider the necessity for changes to capital forecasts and planning based on these reviews.

KCEL assesses internal capital adequacy, as required by Pillar 2, on a semi-annual basis. Pillar 2 assessments will involve:

- A review of existing and planned business activities in the context of the economic and regulatory framework;
- Stress and scenario testing deemed suitable with respect to those activities; and
- Other risks as required by Pillar 2 and, or, decided by the Board.

Pillar 2 risks total £3,726k for all of the above including an allowance for business risk of £ 1,234k.

The total Pillar 1 and Pillar 2 Capital requirements equal £ 19,893k plus £3,726k equaling £ 23,619k.

The Board is satisfied that the Firm maintains adequate regulatory capital based on the size, nature and complexity of the activities it undertakes.

It should be noted that KCEL's forecast market risk charges under Pillar 1 have been calculated using the conservative assumption that the Firm is operating at its maximum equity position limits and therefore, the maximum market risk charge has been taken, even under base case conditions. KCEL's management believes this is an appropriate but highly conservative approach.

The capital adequacy position shown above does not take into account the availability of support from the parent company. KCG has a historic record of providing capital support to KCEL and has indicated that it will continue to provide financial support as required.