SUCDEN FINANCIAL LIMITED
Capital Requirements Directive Pillar 3 Disclosures

OVERVIEW

Background

The European Union Capital Requirements Directive came into effect on the 1st January 2007, introducing consistent adequate capital adequacy standards in the EU based on the Basel II rules. Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority. Among them are disclosure requirements applicable to banks, building societies and investment firms, which are known as Pillar 3. These aim to complement the minimum capital requirements described under Pillar 1 of BASEL II, as well as the supervisory review processes of Pillar 2. These Pillars of regulatory capital management can be summarised as follows:
Pillar 1 - minimum capital requirement as prescribed by the rules of the FSA.
Pillar 2 - is a supervisory assessment of the level of regulatory capital necessary to cover Pillar 1 risks and risks not included in Pillar 1.The company is required to carry out a Internal Capital Adequacy Assessment Process ('ICAAP') to assess the company's risks and how it intends to mitigate those risks and how much current and future capital is necessary having considered the mitigating factors.
Pillar 3 – is public disclosure of risk management framework and regulatory capital allocations.

Basis and Frequency of Disclosures

This disclosure document has been prepared in accordance with the requirements of Pillar 3 as set out in BIPRU 11. Unless otherwise stated, all figures are as at 31st December 2010, our financial year end. Future disclosures will be issued on an annual basis.

Location and Verification

These disclosures are published on the Company's corporate website. The Disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Company's Financial Statements.

RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board is responsible for setting and monitoring the Company's risk appetite and is responsible for oversight of the risk management function. The Company's objective is to have a comprehensive and timely control and disclosure of key risk measures and exposures with daily reports being made available to senior management. Senior management participate in the risk management process through a monthly Risk Committee and a weekly Credit Committee.

The Company employs a variety of risk management tools including a policy of limit control and exception reporting for both the proprietary and client positions.

There have been no significant changes in the objectives, policies and processes for managing risk since the previous year.

CAPITAL RESOURCES

The Company's capital adequacy position is managed and monitored in accordance with the prudential requirements of the Financial Services Authority "FSA", the UK regulator. The Company must at all times meet the relevant minimum capital requirements of the FSA. Under the FSA's minimum capital standards, the Company is required to maintain a prescribed excess of total capital resources over its capital resources requirements. For this purpose the Company calculates capital charges for market risk on its portfolio as required by FSA. The Company has established processes and controls in place to monitor and manage its capital adequacy position and no breaches were reported to the FSA during the year. The Company maintains an ICAAP which is updated quarterly. There have been no changes in the capital management policy since the previous year.

The regulatory capital position in terms of FSA at the 31 December was as follows:

Capital	**2011 £000**	**2010 £000**
Share capital	16,500	16,500
Audited reserves	31,948	31,327
Less intangibles	(2,591)	(2,433)
Tier 1	45,857	45,394
Revaluation reserve	18,015	4,454
Tier 2	18,015	4,454
Subordinated loan	7,726	7,691
Tier 3	7,726	7,691
Total capital	71,598	57,539

CAPITAL ADEQUACY

The Company calculates its Capital Resource Requirement using the BIPRU rules. Capital resources are comprised of share capital and reserves less intangible assets and subordinated loans. Capital requirements are derived from credit risk, operational risk, counterparty risk and market risk.

Summary of Regulatory Capital

	2011 £000	2010 £000
Capital Resources	71,599	57,539
Capital Requirements	(43,897)	(44,555)
Capital Surplus	27,702	12,984

The requirements are broken down as follows:

Credit risk	15,249	17,246
Market risk	24,100	22,781
Operational risk	4,548	4,528
	43,897	44,555

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Credit risk

Cash

Cash balances are held with investment grade banks and limits are placed on the total holdings with these institutions. The Company regularly assesses the creditworthiness of these institutions to ensure there are no indicators that would challenge the credit worthiness.

Investments

Investments are held in exchanges, which are principally required for the Company to perform its principle activities. For other investments held, the Company faces the risk of decline in value. The value of these investments is closely monitored and disposals are made when appropriate.

Trading assets

Counterparty exposure is managed by a formal credit management policy, limit setting (both volume and credit limits for all accounts), exposure monitoring and exception reporting. Legal agreements are entered into according to product.

Internal ratings are applied to all counterparty/client accounts in accordance with the Company's credit management policy. This is based upon a scoring system taking into account quantitative measures drawn down from three years financial results and qualitative measures based upon knowledge of the counterparty. For accounting purposes, the Company defines past due and impaired debts as debts which are due from counterparties beyond their contractual due dates and that the directors have reason to believe will not be paid, and consequently make provisions in the financial accounts.

The carrying amount of financial assets represents the maximum credit exposure. Therefore the maximum exposure to credit risk at the balance sheet date without taking into account collateral held or other credit enhancement was £344,881,483 (2010: £340,130,130), being the total of the carrying amount of financial assets shown in the table shown on page 21. The maximum credit exposure arising from off balance sheet transactions is £nil (2010: £nil).

Credit risk mitigation

The Company uses industry standard documentation with netting clauses as appropriate. Where the Company has the requisite legal opinions on enforceability it nets exposures between individual contracts and collateral as appropriate.

Total Collateral held as at 31 December:

	2011	**2010**
	£000	**£000**
Liquid Assets	2,173	25,705
Illiquid Assets	13,199	13,524
Bank Guarantees	8,985	12,080

All collateral is held by the Company in its original form until the debt has been repaid. The Company holds collateral and is permitted to sell in the event of default by the owner.

Exposures analysed below are gross of any collateral held:

Internal credit rating

The Company assigns internal credit ratings to each of its counterparties. These are set by the Company's Credit Committee which makes its assessment by looking at a combination of quantitative data based on three years' financial statements and qualitative factors including such things as ownership structure and management. Within each risk grade there are up to three sub-bands, representing the relative strength within the overall letter grade, with 1 being the strongest.

The table below shows an analysis of financial assets by internal credit grade, with a description of each grade, as at 31 December:

	2011 £000	Restated 2010 £000
Risk Grade A		
investment grade counterparties whose rating would be BBB- and above for S&P		
A 1	319,463	294,961
Risk Grade B		
non-investment grade counterparties with strong ownership structures / management teams and a record of manageable leverage and financial debt		
B 1	-	3
B 2	342	1,864
B 3	11,729	8,456
Risk Grade C		
non-investment grade counterparties, where there is no proven record or the industry is subject to volatile year on year trends		
C 1	3,049	10,908
C 2	6,649	21,622
Risk Grade D*		
non-investment grade counterparties which operate in jurisdictions where audited accounts are not obligatory, or a subsidiary of a larger group that does not release its accounts	2,953	1,858
Risk Grade E		
a private individual or a company whose sole purpose is to act as an investment vehicle for a private individual	696	458
	344,881	340,130

* It should be noted that this includes assets rated as D because they are impaired.

Industry distribution of credit exposures

Analysis of financial assets by industry distribution as at 31 December:

	2011 £000	**Restated 2010 £000**
Banks	74,926	137,019
Investments	18,494	4,933
LCH.Clearnet	111,893	59,260
Intercontinental Exchange	2,936	3,097
Regulated brokers exchange traded	76,782	70,763
OTC clients -trading companies	5,967	4,918
OTC banks/brokers	42,771	21,302
Trading companies	10,622	38,066
Retail	181	3
Other debtors	309	769
	344,881	340,130

Geographic distribution of credit exposures

Geographical analysis of financial assets as at 31 December:

Jurisdiction	**2011 £000**	**2010 £000**
Europe	271,892	259,122
Asia	8,257	9,692
N America	64,729	71,293
S America	3	23
	344,881	340,130

The above is based on the jurisdiction where the counterparty is physically located.

Financial assets that are past due but not impaired

As at 31 December 2011 and 2010, there were no balances that were past due but not impaired in any class of the financial assets.

Impaired financial assets

As at 31 December 2011 and 2010, there were no balances that were impaired in any class of the financial assets except for trading assets.

Trading assets

	2011 £000	2010 £000
Balance past due as at 31 December (credit grade D)	5,316	5,821
Impairment loss (bad debt provision) (credit grade D)	(4,416)	(4,924)
	900	897

The Company is taking action to recover the debts outstanding and believes the debtors remain going concerns with sufficient resources to repay the debt, which are considered to be impaired as they are past their due date.

MARKET RISK

Market risk is the risk that changes in market prices will affect the company's income. The company has the following types of market risks and uses a method in the FSA rules to calculate the capital charge:

- Commodity Position Risk Requirement - this forms the main element of the company's market risk and is calculated using the extended maturity method.
- Interest rate position risk requirement and foreign currency position rate risk - the capital charge from these methods are always a small percentage of the requirement of the commodity position requirement.

Liquidity Risk

The Company deems liquidity risk as the failure to have sufficient financial resources to meet its day to day capital and cash flow requirements.

To manage this risk the Company seeks to maintain sufficient liquid assets to meet its liabilities as they fall due. The majority of assets are both current and highly liquid and are represented by trading book positions valued at market price, counterparty balances and cash. The Company has contingency plans for short or long-term funding should the need arise.

In respect of client balances the company holds matched positions so liquidity risk is mitigated since the liability positions unwind at the same time as the asset positions.

Operational Risk

The Company has adopted the basic indicator approach to operational risk. Operational risk represents the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.
Sucden has a very low tolerance for operational risk. This assessment is based on the following criteria:

- Corporate Governance. The directors control the operation of the firm by holding frequent committee/senior management meetings (Executive Management Committee, Credit Committee, Risk Audit & Compliance Committee, Information Systems Steering Committee, Strategy Group and Back Office Managers meetings). All committees meet at least monthly.

- Management Information. Directors receive extensive management information including monthly management accounts packs, daily credit, market and liquidity risk and error reports.

- People. Due to the small size of the organisation, trends or abnormalities in the resource profile are immediately apparent. In addition, there is an employee appraisal process, which enables management to monitor performance against pre-set objectives. Sucden also operates a management development programme and all positions have documented job descriptions.

- Processes. All manual procedures are documented in risk based procedures.

- Change. Any new business type/product is submitted to Risk Committee for approval. Potential system changes and requirements are identified by the IS Steering Committee and/or the Strategy group.

- Business Continuity. Sucden has a detailed business continuity plan.

- Risk Mitigation. Sucden has insurance policies covering:

    - Material Damage, Business Interruption and Money;
    - Public and Products Liability and Employers Liability
    - Computer
    - Terrorism
    - Personal Accident and Travel
    - Motor
    - Directors and Officers Liability
    - Pension Trustee