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 participates 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.

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.

The Company has a subsidiary in Hong Kong. At 31st December 2010 both the Company and the subsidiary had a surplus under the Financial Resources Requirements of the Securities and Futures Commission, the financial regulator in Hong Kong.

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

Capital	**2010 £000**	**2009 £000**
Share capital	16,500	16,500
Audited reserves	31,327	30,275
Less intangibles	(2,433)	(2,439)
Tier 1	45,394	44,336
Revaluation reserve	4,454	4,765
Tier 2	4,454	4,765
Subordinated loan	7,691	3,711
Tier 3	7,691	3,711
Total capital	57,539	52,812

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	**2010** **£000**	**2009** **£000**
Capital Resources	57,539	52,812
Capital Requirements	(44,555)	(46,974)
Capital Surplus	12,984	5,838
The requirements are broken down as follows:		
Credit risk	17,246	12,648
Market risk	22,781	29,656
Operational risk	4,528	4,670
	44,555	46,974

The company undertakes an Internal Capital Adequacy Assessment Process (ICAAP) on a quarterly basis, which is an internal assessment of its capital needs. The minimum capital resource requirement under Pillar 1 is calculated as above by adding the charge for credit risk, market risk and operational risk. Pillar 2 is the amount of extra capital the company feels it needs after reviewing the ICAAP in addition to Pillar 1 to cover any other risks and uncertainties. At present the company does not feel it is necessary to provide for any such amount.

CREDIT RISK

Overview

Credit risk is that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company has analysed below its financial assets.

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 acceptance 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 Adequate Credit Management Policy ("ACMP"). 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 £397,470,740 (2009 : £228,568,206), being the total of the carrying amount of financial assets shown in the table below. The maximum credit exposure arising from off balance sheet transactions is £nil (2009: £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.

Collateral in the form of liquid assets or bank guarantees are accepted by the Company as credit risk mitigants. The Company assesses each form of collateral and applies a haircut as appropriate. The main forms of collateral taken are FTSE 250 shares, bank guarantees or LME deliverable warrants. In the current financial environment, some collateral previously considered as liquid is now considered illiquid.

Total Collateral held as at 31 December:	**2010** **£000**	**2009** **£000**
Liquid Assets	25,705	22,296
Illiquid Assets	13,524	108,209
Bank Guarantees	12,080	10,310

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

Analysis of financial assets by credit grade as at 31 December:

	2010 £000	**2009 £000**
A1	345,582	200,320
A2	-	-
B1	3	-
B2	1,864	580
B3	14,541	18,049
C1	10,908	1,550
C2	21,654	2,918
D *	1,896	4,277
E	1,023	874
	397,471	228,568

* 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:	**2010 £000**	**2009 £000**
Banks	164,008	66,943
Investments	4,933	8,605
LCH.Clearnet	66,239	32,465
Intercontinental Exchange	3,696	5,044
Regulated brokers exchange traded	90,648	80,221
OTC clients -trading companies	4,991	1,467
OTC banks/brokers	23,556	11,775
Trading companies	38,066	16,604
Retail	714	643
Other debtors	620	4,801
	397,471	228,568

Geographic distribution of credit exposures

Geographical analysis of financial assets as at 31 December:

Jurisdiction	**2010 £000**	**2009 £000**
Europe	315,746	143,854
Asia	9,692	9,156
N America	72,009	71,529
S America	24	4,029
Total	397,471	228,568

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 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 2010 and 2009, there were no balances that were impaired in any class of the financial assets except for trading assets.

Trading assets	**2010**	**2009**
	£000	**£000**
Balance past due as at 31 December (credit grade D)	5,821	5,633
Impairment loss (bad debt provision) (credit grade D)	(4,924)	(4,055)
Balance past due but not impaired as at 31 December	897	1,578

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

Liquidity risk represents the risk that the company will encounter difficulties in raising funds to meet its current and future payment obligations.
In order to ensure that the Company always has sufficient funds to meet its obligations a daily cash flow analysis is prepared, which details the available funds and expected cash flows for the next ten days. The analysis is reported to senior management. In the event that the analysis indicates insufficient funds are available then senior management will revert to the Risk Committee approved Liquidity Policy.

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