Pillar 3 Disclosure

1. Introduction

Sucden (UK) Limited is regulated by the FSA who require that disclosures are made concerning the company's capital resources and adequacy. The FSA also requires that entities disclose information to demonstrate compliance with a number of areas including:

- Credit risk
- Operational risk
- Market risk
- Concentration risk

The following information is disclosed in relation to Sucden (UK) Ltd and has been prepared on an unconsolidated basis. The cost of the un-regulated subsidiary Genoc has been deducted from Sucden's Capital Resources.

2. Capital Resources

The Company's capital management leads to a strong capital base to support its business, and exceed regulatory capital requirements.

The regulatory capital position at the 31st December 2007 was as follows:

Capital	**£000**
Share capital	16,500
Audited reserves	20,224
Less intangibles	-2,238
Tier 1	34,486
Revaluation reserve	5,131
Tier 2	5,131
Statement of total recognised Gains and losses	587
Interim profit and loss	6,523
Tier 3	7,110
Total capital	46,727
Counterparty risk	6,735
Credit risk	892
Market risk	16,146
Operational risk requirement	4,226
Total surplus	18,728

* Share capital consists of ordinary shares issued at par

Financial Risk Management

In the normal course of its business the company will be exposed to a range of financial risks including market, credit and liquidity risk. Market risk exposures will arise from trading book positions held in commodities and to a lesser extent FX. Credit risk exposure arises primarily from unsettled/outstanding trades in the event of client/counterpart failure.

Objectives, policies and processes for managing risk

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 Senior 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 unsettled client positions.

3. Credit and Counterparty Risk

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

Internal ratings are applied to all counterparty/client accounts in accordance with the company's ACMP. This is based upon a scoring system taking into account quantitive measures drawn from three years financial results and qualitive measures based upon knowledge of the company.

For accounting purposes Sucden defines past due and impaired debts as debts which are from owing 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.

Debtors Analysis Year Ending 2007

	£000
Total Trade Debtors	128.6
Clearing House	57.2
Clearing Brokers	52.6
Clearing Banks	8.4
Trade Debtors	10.4

Geographic Distribution of Credit Exposures

The Exchange traded debtors can be further analysed as follows:

Jurisdiction	£000
AE	38
Austria	175
Belgium	340
Brazil	286
Cyprus	6
France	532
Germany	316
Hong Kong	990
India	71
Japan	128
Portugal	44
Singapore	1,152
Spain	515
Switzerland	174
UK	2,209
USA	1,132
VG	1,253
Other	-
Total	9,360

Additional initial margin funding is granted to the exchange traded debtors:

	£000
Total per balance sheet	9,360
Credit granted for initial margins	17,934
Total credit extended to exchange traded debtors	27,294

The company also extended credit for initial margins to exchange creditors as follows:

	£000
Exchange traded creditors	19,992
Total initial margins on above clients positions	33,871
Total credit extended to exchange traded creditors	13,879

Industry Distribution of Credit Exposures

	£000
LCH	57,160
REGULATED Brokers Exchange Traded	52,659
OTC Clients -TRADING COMPANIES	1,050
OTC Banks/Brokers	7,138
Trading Companies	9,124
Retail	1,420
	128,551

Reconciliation of Movements in Provisions for Impaired Debts

Accounts Disclosure

Bad Debt Movement	31/12/2006	Movement in Provision	Debt/Recoveries	31/12/2007
Retail	5,731			5,731
Trading Companies	57,8252		-3,873	57,8252
	58,3983	0	-3,873	58,3983

As at 31 December 2007 Sucden (UK) Limited had no past due or impaired debts that had not been 100% provided for.

Credit risk Mitigation

Sucden uses industry standard documentation with appropriate netting clauses. Where Sucden has the appropriate 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 Sucden as credit risk mitigants. Sucden assesses each form of collateral and applies a haircut as appropriate. The main forms of collateral are FTSE 250 shares, bank guarantees or LME deliverable warrants.

Standardised Approach

It should be noted that as at 31 December 2007 Sucden had not applied ECAIs in the calculation of credit risk exposures.

4. Operational risk

Sucden (UK) Limited uses the basic indicator approach at year end, which is available to most entities and calculates the operational risk requirement as 15 percent of the entity's net interest and non interest income.

Sucden (UK) Limited's assessment for operational risk is based on the following criteria:

- **Corporate Governance**. The directors control the operation of the firm by holding frequent committee/senior management meetings.
- **Management Information**. Directors receive extensive management information.
- **Processes.** All manual procedures are documented in risk based procedures.
- **Business Continuity.** Sucden has a detailed business continuity plan.
- **Risk Mitigation.** Sucden has relevant insurance policies

5. Liquidity Risk

The company maintains 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 appropriate contingency plans for short or long-term funding should the need arise.

6. Market risk

Market risk is controlled and monitored using a range of risk management tools including VAR, limited margin and outright position limits.

The market risk capital position is the largest component of the utilisation of the company's financial resources, and at the 31st December 2007 was as follows:

	£000
Foreign exchange risk	297
Position risk	15,779
Interest rate risk	69
Total	16,145

It should be noted that for regulatory calculation the company uses the EML method, which results in a far higher figure than either the initial margin requirement or value at risk. It is recognised that the EML gives a high capital change

7. Concentration risk

The company had no large exposure requirement as at the 31st December. Country risk utilisation reports are reviewed on a frequent basis. Country risk is reported to Risk Committee annually. The setting of Country risk limits is a process based on Moody's Country Ratings.

8. Process and Controls

Sucden ensures it is in daily compliance with its prudential requirements as the CRR and PRR are monitored by the Financial Control Department and significant movements reported to the directors.

Sucden's Risk Committee, which includes the executive Directors of the company, regularly review the controls in place and capital required to support the business. The committee reviews the quarterly ICAAP. All significant business changes, including new activities, are approved at the risk committee, which considers the capital consequences.