

Citadel Investment Group (Europe) Ltd

Pillar 3 disclosures for the year ended 31 December 2008

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1. Introduction: Pillar 3

Basel II is structured around three 'pillars': Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline.

Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital resources, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3 and are based on available data as at 31 December 2008.

These Pillar 3 disclosures have been prepared solely to comply with regulatory requirements to provide public information on the Company's risk management objectives and policies, its capital position, its approach to assessing the adequacy of its capital and its exposure to credit, market and operational risks.

The disclosures are made in accordance with the Company's disclosure policy and are not audited. They are reviewed and updated at least annually. Reference to the availability of the Pillar 3 report is made in the Company's financial statements; the Company does not have a website.

If you have any questions on this document, please write to the Company Secretary, Citadel Investment Group (Europe) Ltd, Moor House, 120 London Wall, London EC2Y 5ET.

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2. Risk Management framework and policies

Business Overview

Citadel Investment Group (Europe) Limited (“CIGE”) is a limited licence firm regulated by the FSA, and is not authorised to undertake proprietary trading. CIGE advises on investment decisions taken by Citadel’s global flagship funds, known as Kensington and Wellington. The CIGE data shown in this section 3 of report is stated as at 31 December 2008. CIGE operates from a single location, in the City of London.

Please note that CIGE ceased to be regulated on 29 January 2009; from that date the regulated investment management firm is Citadel Europe LLP (“CELP”), a limited liability partnership. CIGE is the controlling partner of CELP. Despite ceasing to be a regulated entity, the Company has published this Pillar 3 report in accordance with the spirit of BIPRU 11; the commercial reality is that CELP has carried on the regulated activities of CIGE with effect from 29 January 2009 and it is therefore appropriate to publish this report which will be comparable to future Pillar 3 disclosures made by CELP.

Risk Management framework

Risk Management is the process of identifying the principal risks to the Company achieving its strategic objectives, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place to ensure that controls remain robust and evolve with the changing risk profile of the Company.

The Company’s operations expose it to certain financial risks such as credit risk, liquidity risk and foreign exchange risk. The Company considers financial risks regularly and seeks to limit the adverse effects on the financial performance of the Company. The risk management infrastructure, computer systems, and back office are global functions supported by the US parent entity from Chicago and rated OQ2+ by Moody’s.

The Company has conducted a comprehensive risk identification exercise by risk category by function head across the business to ensure that all significant risks have been identified and captured by the risk management infrastructure. All significant risks have been documented, scored and level of exposure estimated using a matrix of parameters.

The London Operations Committee (“LOC”) meets monthly and considers risk management on an ongoing basis. The LOC consists of the local business heads across front and back office.

CIGE’s Board of Directors, consisting of senior US management, reviews and endorses the risk management framework of the Company.

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Risk Management framework (continued)

The high level summary of the key risk assessments for CIGE is as follows:

Operational Risk

Operational risk is the inherent risk of material loss or other adverse impact resulting from inadequate internal processes, people or systems or from external events. CIGE has a low operational risk appetite and has in place a robust control framework, as evidenced by the OQ2+ group operational risk rating received from Moody's.

This various risks associated with employees are addressed by human resource policies to ensure that the Company recruits and retains staff with the appropriate skills, by offering an attractive work place environment and highly competitive remuneration packages.

Business Risk

Business risk is the risk that the Company will not have adequate cash flow to meet its operating expenses. CIGE has a low risk appetite, reflected in the existing fee structure that ensures fee income covers all costs. This structure provides CIGE management with a level of comfort and CIGE would be able to reduce its cost base in a controlled fashion if necessary.

Credit Risk

Credit risk is the risk of loss if another party fails to perform its obligations, and arises in the normal course of business. The principal credit risk for CIGE is exposure to receivable balances from group undertakings. Fee income receivable from the parent is estimated and called monthly in advance to mitigate this risk. CIGE bank balances are segregated from those of the group and placed with highly rated counterparties. The bank accounts are managed and controlled locally, independent of the group cash position.

Liquidity Risk

Liquidity risk is the risk of not being able to meet liabilities as they fall due. The Company is not exposed to material liquidity risk. The Company has sufficient cash to meet short-term liquidity needs, and lends excess cash to highly rated counterparties on a short-term basis only. Cash flow forecasts are produced on a three month time horizon and are reviewed regularly by senior management.

Market Risk

Market risk is the risk of loss that arises from adverse movements in financial markets; CIGE is not authorised to undertake proprietary trading and therefore its market risk is limited to foreign exchange exposure on its balance sheet. The functional currency of CIGE is sterling; the US parent entities functional currency is US dollars and group performance is measured in US dollars. As a consequence CIGE does have a potential exposure to exchange rate movements; this is not actively hedged as certain administrative expenses including performance bonus payments are also denominated in US dollars. However the Company actively monitors foreign currency balances and exchange rates and seeks to limit the potential adverse effects of foreign exchange transactions on the financial performance of the Company.

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3. Capital Resources and Capital Adequacy

The table below summarises the regulatory capital position of CIGE as at 31 December 2008 (Pillar 1):

Capital resources	Notes	31 December 2008 GBP 000s
Share Capital		300
Audited retained profits	1	23,496
Core Tier 1 Capital		23,796
Total regulatory capital (A)	2	23,796
Credit risk capital requirement		2,258
Market risk capital requirement		1,590
Sum of credit risk and market risk (B)		3,848
Fixed overhead requirement (C)	3	8,641
Surplus of Capital Resources Being (A) less the higher of (B) or (C)	4	15,155

Notes on capital resources table above

1. Audited retained earnings include GBP 283K in respect of the year ended 31 December 2008, which was audited subsequent to that date.
2. The Company has no tier 2 capital, or any deductions from core tier 1 capital.
3. The fixed overhead requirement calculation is based on the audited 2008 expenses.
4. Stated before any internal capital allocations arising from the ICAAP.

Pillar 1 capital resources

The Company's policy is to remain well capitalised and soundly financed. CIGE will maintain a strong capital base to support the development of the business and to ensure regulatory capital requirements are met at all times.

The classification of the firm as limited licence means the key capital adequacy measurement is the fixed overhead requirement (25% of the audited fixed cost base) as compared to the audited share capital and retained earnings. As at 31 December 2008, the surplus of capital resources was GBP 15,155K.

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Pillar 1 capital resources (continued)

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities. There are no plans to distribute retained earnings to the US parent entity by way of dividends.

4. Credit Risk

Credit risk capital requirement

CIGE adopts the Simplified Standardised Approach to the credit risk capital requirement, and the calculation at 31 December 2008 is as follows:

Asset class	Risk Weight	Exposure GBP 000s
Claims on institutions	20%	70,733
Claims on corporates	100%	12,680
Other items - deferred tax assets	0%	22,785
Other items	100%	1,393
RISK WEIGHTED TOTAL		28,220
Credit risk capital requirement	8%	2,258

The above analysis gives the breakdown of credit risk by asset class; no further industry analysis of the credit risk capital requirement is considered necessary.

The geographical analysis of exposures by asset class is as follows:

Asset class	UK GBP 000s	USA GBP 000s	Rest of World GBP 000s
Claims on institutions	70,733	-	-
Claims on corporates	4,406	7,756	518
Other items - deferred tax assets	22,785	-	-
Other items	1,393	-	-
	99,317	7,756	518

Claims on institutions and corporates have a residual maturity of less than 90 days, there being no material amounts falling due after 90 days. The deferred tax assets carry a residual maturity of more than 1 year.

Past due items and impairment

The Company does not have any material past due or impaired assets on its balance sheet.

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5. Market Risk

Market risk capital requirement

The Company's market risk capital requirement at 31 December 2008 is equal to the foreign exchange position risk requirement, and is calculated as follows:

Exposure position by currency	31 December 2008 GBP 000s
USD	19,325
Other non-GBP exposures	552
TOTAL EXPOSURE	19,877
Market risk capital requirement	8%
	1,590

CIGE actively monitors foreign currency balances and exchange rates and seeks to limit the potential adverse effects of foreign exchange transactions on the financial performance of the Company.

Interest rate risk in the non-trading book

The Company does not carry any material interest rate risk on its balance sheet.

6. Other Pillar 3 disclosures

Pillar 2: Internal capital adequacy assessment process ("ICAAP")

CIGE has carried out its internal capital adequacy assessment. The ICAAP forms an integral part of the Company's risk management processes. The ICAAP is co-ordinated locally by the COO and head of the legal and compliance function. The ICAAP is updated at least annually and reviewed by the Board of Directors of CIGE.