

Citadel Europe LLP

Pillar 3 disclosures for the year ended 31 December 2010

Revised 23 December 2011

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1. Introduction: Pillar 3

The following disclosures are provided in accordance with the Pillar 3 disclosure rules as set out by the Financial Services Authority (“FSA”) in section 11 of its Prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The prudential framework for BIPRU firms consists of three “Pillars”:

- Pillar 1 sets out the minimum capital requirements for the Partnership;
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process (“ICAAP”) and the Supervisory Review and Evaluation Process through which the Partnership and the regulator satisfy themselves regarding the adequacy of capital; and
- 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.

These Pillar 3 disclosures have been prepared solely to comply with regulatory requirements to provide public information on the Partnership'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 Partnership's disclosure policy and are not audited. Disclosures will be issued as a minimum on an annual basis and will be published on the Citadel group website www.citadelgroup.com as soon as practicable after the publication of the Partnership's annual report and financial statements.

If you have any questions on this document, please write to the Partnership Secretary, Citadel Europe LLP, Moor House, 120 London Wall, London EC2Y 5ET.

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2. Risk Management framework and policies

Business Overview

CELP is a €50k limited licence investment firm regulated by the FSA. CELP is retained as an independent sub-advisor to portfolio manager Citadel Advisors LLC (“CALC”) pursuant to a Sub-Advisory and Management Agreement dated January 2009. CALC is a Delaware registered entity appointed to manage the assets of a number of investor-facing funds.

CELP is dependent on certain functions provided by Citadel LLC, a related entity in Chicago, including the risk management framework covering the funds’ market risks, the operational infrastructure including technology, and investor relations.

The managing member of CELP is Citadel Investment Group (Europe) Limited (“CIGE”), which provides services to CELP as corporate partner, notably the provision of all staff, premises, and local infrastructure. For the purposes of these Pillar 3 disclosures, CELP refers to the UK group data, being CELP and CIGE consolidated data as at 31 December 2010.

Risk Management framework

Risk Management is the process of identifying the principal risks to the Partnership 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 Partnership.

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

The Partnership 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.

CELP’s management committee, consisting of senior UK and US management, reviews and endorses the risk management framework of the Partnership.

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Risk Management framework (continued)

The high level summary of the key risk assessments for CELP is as follows. All risks are regularly monitored by the LOC using key risk indicators within agreed parameters:

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. The Partnership seeks to minimise operational risk through a structured controls framework and monthly monitoring of key operational risk indicators.

Business Risk

Business risk is the risk of loss inherent in the Partnership's operating, business and industry environment. CELP has only one client, CALC, and the existing fee structure ensures that fee income covers all costs. This structure provides CELP management with a level of comfort and CELP 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 CELP is exposure to receivable balances from group undertakings. Fee income receivable from the US parent is calculated by reference to expenses and cash is called monthly to help mitigate the credit risk. CELP 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 Partnership has sufficient cash to meet short-term liquidity needs, and deposits excess cash with 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.

With regard to liquidity risk, the Partnership operates in accordance with Liquidity Risk Assessment Policy which sets out the process of liquidity risk management. The management committee has implemented an effective, ongoing process to identify liquidity risk, to measure its potential impact against appropriate assumptions and then to ensure that such risks are actively managed.

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Risk Management framework (continued)

Market Risk

Market risk is the risk of loss that arises from adverse movements in financial markets; CELP 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 CELP is sterling; the US parent entities functional currency is US dollars and group performance is measured in US dollars. As a consequence CELP 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 Partnership 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 Partnership.

3. Capital Resources and Capital Adequacy

The table below summarises the consolidated regulatory capital position of CELP as at 31 December 2010 (Pillar 1):

Capital resources	Notes	31 December 2010 GBP 000s
Share Capital		300
Retained profits		23,389
Core Tier 1 Capital		23,689
Total regulatory capital (A)		23,689
Credit risk capital requirement		976
Market risk capital requirement		84
Sum of credit risk and market risk (B)		1,060
Fixed overhead requirement (C)	1	7,939
Surplus of Capital Resources Being (A) less the higher of (B) or (C)		15,750

Notes on capital resources table above

- 1. The fixed overhead requirement calculation is based on the audited 2010 expenses.*
- 2. Individual capital guidance was set by the FSA at 120%.*
- 3. Stated before any capital set aside arising from individual capital guidance and the ICAAP.*

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Pillar 1 capital resources

The Partnership's policy is to remain well capitalised and soundly financed. CELP 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 Partnership as a limited licence firm 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 2010, the surplus of capital resources was GBP 14,162K before any Pillar 2 set-aside.

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

CELP adopts the Simplified Standardised Approach to the credit risk capital requirement, and the calculation at 31 December 2010 is as follows:

Asset class	Risk Weight	Exposure GBP 000s
Claims on institutions	20%	46,462
Claims on corporates and partners	100%	2,083
Other items - tax assets	0%	18,835
Other items	100%	827
RISK WEIGHTED TOTAL		12,202
Credit risk capital requirement	8%	976

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.

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Credit risk capital requirement (continued)

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

Asset class	UK GBP 000s	Rest of World GBP 000s
Claims on institutions	46,462	-
Claims on corporates and partners	1,932	151
Other items - tax assets	18,835	-
Other items	827	-
	68,056	151

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

Past due items and impairment

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

5. Market Risk

Market risk capital requirement

The Partnership's market risk capital requirement at 31 December 2010 is equal to the foreign exchange position risk requirement, and is calculated as follows:

Exposure position by currency	31 December 2010 GBP 000s
USD	486
EUR	562
Other non-GBP exposures	6
TOTAL EXPOSURE	1,054
Market risk capital requirement	8% 84

CELP 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 Partnership.

Interest rate risk in the non-trading book

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

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6. Other Pillar 3 disclosures

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

CELP has carried out its internal capital adequacy assessment. The ICAAP forms an integral part of the Partnership's risk management processes. The ICAAP is co-ordinated locally by the COO for CELP and heads of the legal and compliance functions. The ICAAP is updated at least annually and reviewed by the management committee of CELP.

7. FSA Remuneration Code

The remuneration policy has been adopted by the management committee of CELP and by the board of CIGE who have the ultimate responsibility for the implementation of the remuneration policy. CELP and CIGE have established an independent compensation oversight body, made up of US based Citadel senior management who are tasked with overseeing the implementation of the remuneration policy and the remuneration of code staff in line with the principles set out in the policy.

The compensation plan for CELP and CIGE is composed of fixed drawings or base salary (fixed remuneration), participation points (variable remuneration) and benefits. Participation points are issued as a combination of short-term points (cash), profit allocation, and long-term points (unvested equity interests in the form of unvested shares in a company formed by the Citadel group for its employees that itself is invested in funds of the Citadel group) as appropriate.

Participation points are awarded in respect of any calendar year during which employees are employed by the group on a discretionary basis based on (i) personal performance and demonstration of Citadel values and the Citadel leadership model; and/or (ii) firm-wide or team performance results.

Total remuneration award by CELP and CIGE in 2011 was as follows:

Code Staff	GBP <i>To be confirmed after 2011 financial statements are audited</i>
Non-code staff	GBP <i>To be confirmed after 2011 financial statements are audited</i>
Total	GBP <i>To be confirmed after 2011 financial statements are audited</i>