

Company Registration No. 04223247 (England and Wales)

CHATHAM FINANCIAL EUROPE, LTD
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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CHATHAM FINANCIAL EUROPE, LTD

COMPANY INFORMATION

| | |
|--------------------------|--|
| Directors | David Hall Mark Battistoni Jamie Macdonald (Appointed 8 October 2013) |
| Company number | 04223247 |
| Registered office | 69/85 Tabernacle Street London EC2A 4RR |
| Auditors | The Gallagher Partnership LLP 69/85 Tabernacle Street London EC2A 4RR |
| Business address | 4th Floor, Burdett House 15-16 Buckingham Street London WC2N 6DU |

CHATHAM FINANCIAL EUROPE, LTD

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CHATHAM FINANCIAL EUROPE, LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report and financial statements for the year ended 31 December 2013

Principal activities and review of the business

The principal activity of the company is to advise on, arrange and assist clients in multiple facets of corporate and structured finance, including identifying interest rate and currency risks and implementing strategies to mitigate those risks. The company is authorised and regulated by the Financial Conduct Authority.

The results for the year and the financial position at the year end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

Results and dividends

The results for the year are set out on page 5.

The directors do not recommend payment of an ordinary dividend in the reporting year.

It is proposed that the retained profits of £1,413,825 is transferred to reserves.

Description of principal risks and uncertainties and risk management

The company is required by its regulator, The Financial Conduct Authority, to make its disclosure risk policy available in accordance with Pillar 3 of the capital requirement directive. The disclosure is attached as an appendix to these financial statements. This disclosure is un-audited.

Directors

The following directors have held office since 1 January 2013:

David Hall

Mark Battistoni

Jamie Macdonald

(Appointed 8 October 2013)

Auditors

In accordance with the company's articles, a resolution proposing that The Gallagher Partnership LLP be reappointed as auditors of the company will be put at a General Meeting.

CHATHAM FINANCIAL EUROPE, LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



Mark Battiston

Director

26/3/14

CHATHAM FINANCIAL EUROPE, LTD

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CHATHAM FINANCIAL EUROPE, LTD

We have audited the financial statements of Chatham Financial Europe, Ltd for the year ended 31 December 2013 set out on pages 5 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 1 - 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

CHATHAM FINANCIAL EUROPE, LTD

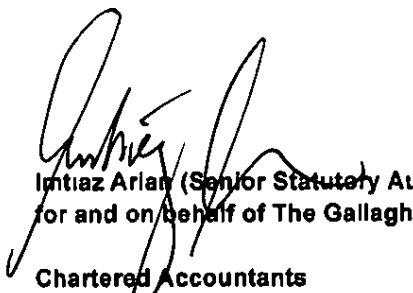
INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF CHATHAM FINANCIAL EUROPE, LTD

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit


Imtiaz Arian (Senior Statutory Auditor)
for and on behalf of The Gallagher Partnership LLP

Chartered Accountants
Statutory Auditor

27 March 2014

69/85 Tabernacle Street
London
EC2A 4RR

CHATHAM FINANCIAL EUROPE, LTD

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | 2013 £ | 2012 £ |
|---|-------|-------------|-------------|
| Turnover | 2 | 7,001,078 | 5,224,854 |
| Administrative expenses | | (5,148,098) | (4,428,048) |
| Operating profit | 3 | 1,852,980 | 796,806 |
| Other interest receivable and similar income | 4 | - | 1,633 |
| Profit on ordinary activities before taxation | | 1,852,980 | 798,439 |
| Tax on profit on ordinary activities | 5 | (439,155) | (204,199) |
| Profit for the year | 14 | 1,413,825 | 594,240 |

The profit and loss account has been prepared on the basis that all operations are continuing operations

There are no recognised gains and losses other than those passing through the profit and loss account

CHATHAM FINANCIAL EUROPE, LTD

BALANCE SHEET

AS AT 31 DECEMBER 2013

| | Notes | 2013 £ | £ | 2012 £ | £ |
|---|-------|------------------|------------------|------------------|------------------|
| Fixed assets | | | | | |
| Tangible assets | 7 | | 117,442 | | 85,144 |
| Current assets | | | | | |
| Debtors | 8 | 1,303,228 | | 1,184,765 | |
| Cash at bank and in hand | | 3,345,950 | | 2,010,775 | |
| | | <u>4,649,178</u> | | <u>3,195,540</u> | |
| Creditors: amounts falling due within one year | 9 | <u>(998,672)</u> | | <u>(928,395)</u> | |
| Net current assets | | | 3,650,506 | | 2,267,145 |
| Total assets less current liabilities | | | 3,767,948 | | 2,352,289 |
| Provisions for liabilities | 10 | | (5,098) | | - |
| Accruals and deferred income | 11 | | (17,866) | | (21,130) |
| | | | <u>3,744,984</u> | | <u>2,331,159</u> |
| Capital and reserves | | | | | |
| Called up share capital | 13 | | 500,000 | | 500,000 |
| Profit and loss account | 14 | | 3,244,984 | | 1,831,159 |
| Shareholders' funds | 16 | | <u>3,744,984</u> | | <u>2,331,159</u> |

Approved by the Board and authorised for issue on 26/3/14



Mark Battistoni
Director

Company Registration No. 04223247

CHATHAM FINANCIAL EUROPE, LTD

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

| | 2013 | 2012 |
|---|------------------|--------------------|
| | £ | £ |
| Net cash inflow from operating activities | 1,669,917 | 235,216 |
| Returns on investments and servicing of finance | | |
| Interest received | - | 1,633 |
| | <hr/> | <hr/> |
| Net cash (outflow)/inflow for returns on investments and servicing of finance | - | 1,633 |
| Taxation | (267,014) | (139,821) |
| Capital expenditure | | |
| Payments to acquire tangible assets | (67,728) | (65,040) |
| | <hr/> | <hr/> |
| Net cash outflow for capital expenditure | (67,728) | (65,040) |
| Equity dividends paid | - | (1,860,004) |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) before management of liquid resources and financing | 1,335,175 | (1,828,016) |
| | <hr/> | <hr/> |
| Increase/(decrease) in cash in the year | <u>1,335,175</u> | <u>(1,828,016)</u> |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

| 1 Reconciliation of operating profit to net cash outflow from operating activities | | 2013 | 2012 |
|--|------------------|------------------|------------------------|
| | | £ | £ |
| Operating profit | | 1,852,980 | 796,806 |
| Depreciation of tangible assets | | 35,430 | 27,168 |
| Increase in debtors | | (122,185) | (689,459) |
| (Decrease)/Increase in creditors within one year | | (93,044) | 118,809 |
| Movement on deferred rent provision | | (3,264) | (18,108) |
| Net cash inflow from operating activities | | 1,669,917 | 235,216 |
| 2 Analysis of net funds | | | |
| | 1 January 2013 | Cash flow | Other non- 31 December |
| | £ | £ | cash changes 2013 |
| Net cash | | | £ |
| Cash at bank and in hand | 2,010,775 | 1,335,175 | - 3,345,950 |
| Bank deposits | - | - | - - |
| Net funds | 2,010,775 | 1,335,175 | - 3,345,950 |
| 3 Reconciliation of net cash flow to movement in net funds | | | |
| | | 2013 | 2012 |
| | | £ | £ |
| Increase/(decrease) in cash in the year | | 1,335,175 | (1,828,016) |
| Movement in net funds in the year | | 1,335,175 | (1,828,016) |
| Opening net funds | | 2,010,775 | 3,838,791 |
| Closing net funds | | 3,345,950 | 2,010,775 |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below

1.1 Accounting convention

The financial statements are prepared under the historical cost convention

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated)

1.3 Turnover

Turnover represents amounts receivable services provided in the normal course of business. Revenue is recognised in line with accrual accounting based on fees received for services provided during the year

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

| | |
|--------------------------------|------------------------------|
| Land and buildings Leasehold | Over the period of the lease |
| Plant and machinery | over 3 years |
| Computer equipment | over 3 years |
| Fixtures, fittings & equipment | over 4 years |

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

1.6 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable

1.7 Taxation

Corporation tax payable is provided on taxable profits at the current rates

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted

1.8 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account

1.9 Share-based payments

Through the ultimate parent company, Chatham Financial Corporation, the company has issued share options to certain directors and employees. These must be measured at fair value and recognised as an expense in the profit and loss account. The fair value of the options was estimated at the date of grant. The fair value will be charged as an expense in the profit and loss account over the vesting period. The charge is adjusted each year to reflect the expected and actual level of vesting

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

1 Accounting policies (Continued)

1 10 Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

| 3 Operating profit | 2013 £ | 2012 £ |
|---|-----------|-----------|
| Operating profit is stated after charging | | |
| Depreciation of tangible assets | 35,430 | 27,168 |
| Loss on foreign exchange transactions | 41,096 | 166,182 |
| Operating lease rentals | 145,037 | 130,192 |

Auditors' remuneration

| | | |
|--|--------|--------|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 13,468 | 14,136 |
| Taxation & other services | 3,000 | 3,000 |
| Other services | 13,020 | 8,624 |
| | 29,488 | 25,760 |

| 4 Investment income | 2013 £ | 2012 £ |
|---------------------|-----------|-----------|
| Bank interest | - | 1,633 |
| | - | 1,633 |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

| 5 | Taxation | 2013 £ | 2012 £ |
|---|---|-----------|-----------|
| | Domestic current year tax | | |
| | U K corporation tax | 430,335 | 196,514 |
| | Total current tax | 430,335 | 196,514 |
| | Deferred tax | | |
| | Deferred tax charge/credit current year | 8,820 | 7,685 |
| | | 439,155 | 204,199 |
| | Factors affecting the tax charge for the year | | |
| | Profit on ordinary activities before taxation | 1,852,980 | 798,439 |
| | Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 23.00% (2012 - 24.00%) | 426,185 | 191,625 |
| | Effects of | | |
| | Non deductible expenses | 1,434 | 1,099 |
| | Depreciation add back | 8,149 | 6,520 |
| | Capital allowances | (17,170) | (13,587) |
| | Adjustment regarding pensions - deductible on a paid basis | 1,054 | 1,384 |
| | Share based payment adjustment | 6,119 | 5,597 |
| | Change in rate of corporation tax during the year | 4,564 | 3,876 |
| | | 4,150 | 4,889 |
| | Current tax charge for the year | 430,335 | 196,514 |
| 6 | Dividends | 2013 £ | 2012 £ |
| | Ordinary interim paid | - | 1,860,004 |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

7 Tangible fixed assets

| | Land and buildings Leasehold £ | Plant and machinery £ | Fixtures, fittings & equipment £ | Total £ |
|-----------------------|---|-----------------------------|---|------------|
| Cost | | | | |
| At 1 January 2013 | 67,044 | 315,635 | 131,322 | 514,001 |
| Additions | 11,314 | 56,414 | - | 67,728 |
| At 31 December 2013 | 78,358 | 372,049 | 131,322 | 581,729 |
| Depreciation | | | | |
| At 1 January 2013 | 63,316 | 237,837 | 127,704 | 428,857 |
| Charge for the year | 1,965 | 31,691 | 1,774 | 35,430 |
| At 31 December 2013 | 65,281 | 269,528 | 129,478 | 464,287 |
| Net book value | | | | |
| At 31 December 2013 | 13,077 | 102,521 | 1,844 | 117,442 |
| At 31 December 2012 | 3,728 | 77,798 | 3,618 | 85,144 |

8 Debtors

| | 2013 £ | 2012 £ |
|---|-----------|-----------|
| Trade debtors | 1,131,068 | 1,076,977 |
| Amounts owed by parent and fellow subsidiary undertakings | 11,435 | - |
| Other debtors | 45,129 | 3,676 |
| Prepayments and accrued income | 115,596 | 100,390 |
| Deferred tax asset (see note 10) | - | 3,722 |
| | 1,303,228 | 1,184,765 |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

| 9 | Creditors amounts falling due within one year | 2013 £ | 2012 £ |
|---|---|----------------|----------------|
| | Trade creditors | 8,524 | 17,683 |
| | Amounts owed to parent and fellow subsidiary undertakings | 166,116 | 230,637 |
| | Corporation tax | 296,838 | 133,517 |
| | Other taxes and social security costs | 203,073 | 261,738 |
| | Other creditors | - | 37 |
| | Accruals and deferred income | 324,121 | 284,783 |
| | | <u>998,672</u> | <u>928,395</u> |

| 10 | Provisions for liabilities | Deferred tax liability £ |
|----|-----------------------------|-----------------------------|
| | Balance at 1 January 2013 | (3,722) |
| | Profit and loss account | 8,820 |
| | Balance at 31 December 2013 | <u>5,098</u> |

The deferred tax liability is made up as follows.

| | 2013 £ | 2012 £ |
|--|--------------|----------------|
| Accelerated/(decelerated) capital allowances | <u>5,098</u> | <u>(3,722)</u> |

| 11 | Accruals and deferred income | Deferred rent £ |
|----|------------------------------|--------------------|
| | Balance at 1 January 2013 | 21,130 |
| | Amortisation in the year | (3,264) |
| | Balance at 31 December 2013 | <u>17,866</u> |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

12 Pension and other post-retirement benefit commitments Defined contribution

| | 2013 £ | 2012 £ |
|---|-----------|-----------|
| Contributions payable by the company for the year | 113,428 | 103,620 |
| Contributions payable to the fund at the year end and included in creditors | (58,203) | (53,620) |

13 Share capital

| | 2013 £ | 2012 £ |
|------------------------------------|-----------|-----------|
| Allotted, called up and fully paid | | |
| 500,000 Ordinary shares of £1 each | 500,000 | 500,000 |

14 Statement of movements on profit and loss account

| | Profit and loss account £ |
|-----------------------------|---------------------------------|
| Balance at 1 January 2013 | 1,831,159 |
| Profit for the year | 1,413,825 |
| Balance at 31 December 2013 | 3,244,984 |

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

15 Share-based payment transactions

The annual bonus award is a combination of cash and equity awards in the parent company in accordance with the group's bonus policy. Chatham Financial Europe (CFE) does not issue its equity to employees for compensation, but employees of CFE are eligible for equity based compensation from the parent company. The non-vested shares are amortised and allocated to CFE as they vest, and the related compensation is expensed as the shares are earned and paid out to the CFE employees.

Further details of the share based payments are as follows:

Restricted share awards

| | Number of shares 2013 | Weighted average price 2013 \$ | Number of shares 2012 | Weighted average price 2012 \$ |
|--------------------------------|-----------------------------|---|-----------------------------|---|
| At beginning of the year | 10,296 | 20.95 | - | - |
| Granted | 6,307 | 20.22 | 14,280 | 20.63 |
| Exercised | 6,627 | 19.34 | (3,984) | 21.44 |
| Outstanding at end of the year | 9,976 | 21.52 | 10,296 | 20.95 |

The vesting schedules vary among the grants, generally vesting over a period of 1 - 4 years.

The vesting conditions provide that the employees complete the required years of service as stipulated in the particular grant.

Share option awards

| | Number of options 2013 | Weighted average price 2013 \$ | Number of options 2012 | Weighted average price 2012 \$ |
|--------------------------------|------------------------------|---|------------------------------|---|
| At beginning of the year | 19,268 | 2.82 | 19,268 | 2.82 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Outstanding at end of the year | 19,268 | 2.82 | 19,268 | 2.82 |

All options are issued at the stock price effective at the time of grant.

At 31 December 2013 the weighted average exercise price was \$16.93.

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

| 16 Reconciliation of movements in shareholders' funds | 2013 £ | 2012 £ |
|---|-----------|-------------|
| Profit for the financial year | 1,413,825 | 594,240 |
| Dividends | - | (1,860,004) |
| Net addition to/(depletion in) shareholders' funds | 1,413,825 | (1,265,764) |
| Opening shareholders' funds | 2,331,159 | 3,596,923 |
| Closing shareholders' funds | 3,744,984 | 2,331,159 |

17 Financial commitments

At 31 December 2013 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2014

| | Land and buildings | |
|-------------------------------|--------------------|-----------|
| | 2013 £ | 2012 £ |
| Operating leases which expire | | |
| Within one year | 7,946 | - |
| Between two and five years | - | 118,400 |
| In over five years | 79,615 | - |
| | 87,561 | 118,400 |

| 18 Directors' remuneration | 2013 £ | 2012 £ |
|---|-----------|-----------|
| Remuneration for qualifying services | 412,644 | 386,272 |
| Company pension contributions to defined contribution schemes | 56,000 | 50,000 |
| | 468,644 | 436,272 |

Remuneration disclosed above include the following amounts paid to the highest paid director

| | | |
|---|---------|---------|
| Remuneration for qualifying services | 350,394 | 386,272 |
| Company pension contributions to defined contribution schemes | 50,000 | 50,000 |

The highest paid director has exercised share options during the year

CHATHAM FINANCIAL EUROPE, LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

19 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

| | 2013 Number | 2012 Number |
|------------------------|----------------|----------------|
| Operations & marketing | 15 | 12 |
| Administration | 2 | 2 |
| | <u>17</u> | <u>14</u> |

Employment costs

| | 2013 £ | 2012 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 2,025,317 | 1,731,594 |
| Social security costs | 271,927 | 227,842 |
| Other pension costs | 113,428 | 103,620 |
| Share based payments | 87,461 | 66,797 |
| | <u>2,498,133</u> | <u>2,129,853</u> |

20 Control

The ultimate parent company is Chatham Financial Corporation, a company registered in the state of Pennsylvania, USA

21 Related party relationships and transactions

During the year the company expensed costs amounting to £987,113 (2012 - £752,366) charged by the parent company for IT and other services. At the balance sheet date the company had an amount payable to the parent company of £121,335 (2012 - £178,790)

During the year the company expensed costs amounting to £481,554 (2012 - £421,651) charged by Chatham Financial Sp Z o o, a fellow subsidiary company registered in Poland. At the balance sheet date the company had an amount payable of £44,782 (2012 - £51,794) to Chatham Financial Sp Z o o

At the year end the company had amounts of £3,712 and £7,723 owed by fellow subsidiaries, Chatham Financial PTE Ltd and Chatham Hedging Advisors LLC respectively, for expenses paid on their behalf

Disclosure under Pillar 3 of Capital Requirements Directive

The Capital Requirements Directive ('The Directive') of the European Union establishes a regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain

In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investments Firms ("BIPRU")

The FCA framework consists of three "Pillars"

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position, and remuneration policy and amounts to encourage market discipline

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations

The Pillar 3 disclosure document has been prepared by Chatham Financial Europe, Ltd ("The Firm") in accordance with the requirements of BIPRU 11 and is verified by the senior management. Unless otherwise stated, all figures are as at the financial year end

Pillar 3 disclosures will be issued on an annual basis after the year end and published with the annual accounts

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential in our view. Proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties

We have no omissions on the grounds that it is immaterial, proprietary or confidential

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a Limited Licence Firm by the FCA for capital purposes

It is a risk/investment management firm and as such has no trading book exposures

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The Senior Management

team takes overall responsibility for this process and the fundamental risk appetite of the firm. The team has responsibility for the implementation and enforcement of the Firm's risk principles.

Senior Management meets on a regular basis to discuss current projections for profitability, cash flow, business planning and risk management. Senior Management engage in the Firm's risk management through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules, (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies are updated as required.

The Senior Management team has identified that business, operational, market, reputation, liquidity and credit are the main areas of risk to which the Firm is exposed. Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness.

Management accounts demonstrate continued adequacy of the firm's regulatory capital, which is reviewed on a regular basis.

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls.

Business risk

Business risk relates to being able to generate fee income and control costs on an on-going basis in-line with business plans. The key income driver is CFE's clients' need for debt or foreign currency hedging, which, in turn, is materially impacted by CFE's clients' access to financing and anticipated cash flows from non UK investments.

The firm strives to continue developing a diversified stream of stable advisory fees in order to mitigate these risks.

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. This would include CFE's Disaster Recovery solutions and risks to CFE's technology infrastructure.

To mitigate risk the firm maintains offsite storage of key documents and electronic back up of data and e-mails.

Reputational risk

Reputational risk relates to damage to an organisation through loss of its reputation or standing. This could include a variety of factors such as compliance failures, failure to properly oversee its employees and failure to provide appropriate risk oversight over the funds.

The firm operates with a flat organisational structure where the most senior personnel are the "doers" and are intimately involved in all CFE's activities to help mitigate risk in this area.

Credit risk

The Firm is exposed to credit risk in respect of its debtors, investment management and performance fees billed and cash held on deposit.

Management fees are drawn monthly from the funds managed and performance fees are drawn monthly or quarterly where applicable. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.55 of the FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

Since the Firm takes no trading book positions, the primary market risk relates to fluctuations in the value of its revenues due to movements in currency rates. The Firm maintains multi-currency bank accounts.

The Firm calculates its foreign exchange risk by reference to the rules of BIPRU 7.51 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds.

Regulatory capital

The firm is a Limited Company and the main features of its capital resources for regulatory purposes are as follows:

| | 31 December 2013 |
|--------------------------------|-------------------------|
| | £ |
| Tier 1 capital | 3,744,000 |
| Tier 2 capital | NIL |
| Tier 3 capital | NIL |
| Deductions from Tiers 1 and 2 | NIL |
| Total capital resources | 3,744,000 |

Our firm is small with simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

Limited Licence – The Firm is subject to the Fixed Overhead Requirement ("FOR") and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required

As discussed above the firm is a limited licence firm and as such its Pillar 1 capital requirement is the higher of,

- €50,000
- The sum of the market & credit risk requirements
- Its FOR

The FOR is the higher measure and is calculated, in accordance with FCA rules based on the firm's previous year's audited expenditure. The firm is not subject to an operational risk requirement.

The firm's Pillar 2 Internal Capital Adequacy Assessment Process indicates that no capital in addition to the Pillar 1 level is required.

Remuneration Code Disclosure

Chatham Financial Europe, Ltd ("The Firm") is authorised and regulated by the Financial Conduct Authority as a Limited Licence Firm and so it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide investment / risk management services to a variety of clients in the financial sector.

Our Policy is designed to ensure that we comply with the RemCode and our compensation arrangements,

1. Are consistent with and promote sound and effective risk management
2. Do not encourage excessive risk taking
3. Include measures to avoid conflicts of interest, and
4. Are in line with the Firm's business strategy, objectives, values and long term interests

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

1. Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant,
 - The Firm's policy has been agreed by the Senior Management in line with the RemCode principles laid down by the FCA
 - Due to the size, nature and complexity of the firm, we are not required to appoint an independent remuneration committee
 - The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business. The Firm's ability to pay bonuses is based on the performance of the firm overall and derived after the fund's managed returns have been

- calculated by client appointed third party administrators
- There is limited involvement of the Firm in deriving asset prices

2 Summary of how the firm links between pay and performance

- Individuals are rewarded based on their contribution to the overall strategy of the business concerning
 - a Investment Generation
 - b Investment Trading
 - c Sales & Marketing
 - d Operations
 - Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the firm
- 3 All discretionary remuneration is directly related to the performance of our managed entities and as such staff interests are intrinsically aligned with the interest of the Firm and its Clients vis-a-vis remuneration and performance