

NORTHCROSS

NORTHCROSS

Internal Capital Adequacy Assessment Process
(ICAAP)
Pillar 3 Risk Disclosure Statement

Introduction

The firm is required by the Financial Services Authority ("FSA") to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the firm and the risk assessment process it has in place to monitor these. Known as "Pillar 3" disclosures, they are required to be made under Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and are seen as complimentary to the firm's minimum capital requirement calculation ("Pillar 1") and the internal review of its capital adequacy ("Pillar 2").

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 risk management process on Anglesea Funding Plc, is outsourced to Bank of New York Mellon (Dublin) and is overseen by the Chief Operating Officer, with the board of the Partnership taking overall responsibility for this process. In addition, there is monthly oversight by two rating agencies, Moody's Investors Service and Standard and Poors. A formal update on operational matters is provided to the board on a regular basis.

Management accounts demonstrating continued adequacy of the firm's regulatory capital are provided on a monthly basis.

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

Specific risks applicable to the firm come under the headings of business, operational, credit and market risks.

Business Risk

The firm's revenue is reliant on the performance of its existing conduit, the conduit's ability to issue commercial paper and its ability to obtain new mandates. As such, the risk posed to the firm relates to various market factors that would make it uneconomical to issue CP or the lack of desire from investors to invest in commercial paper. This risk is mitigated by the significant levels of liquidity and capital held by the firm which will continue to cover all the expenses of the business for a minimum of the longest outstanding issuance of commercial paper.

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. These relate to loss of key man, systems failure, failure to follow investment guidelines or restrictions, breach of regulatory rules, failure of a third party provider and counter party failure. Appropriate policies are in place to mitigate against these risks.

The Founding Partners careers are closely tied to the business, and there is adequate coverage should one or two Partners leave the firm. The firm has a detailed disaster recovery plan. These arrangements are tested on a regular basis in order to ensure that they would be effective should they be required to be invoked. There is strong external oversight of investment activities and regulatory requirements to assure that any breaches are identified quickly and resolved. Third party relationships and procedures are well documented and should provide seamless transition to a new provider in case of a failure.

Credit risk

The firm, itself, is exposed to credit risk in respect of investment advisory fees billed and cash held on deposit.

The firm's conduit client carries a high short-term credit rating from Moody's and Standard and Poors. The investments of the conduit are restricted to highly rated entities, with minimum short-term ratings of P-1/A-1 from the two agencies. Management fees are drawn monthly from the conduit. The firm considers that there is little risk of default by its client. The firm's bank accounts are held with large international credit institutions and are largely government owned by now.

Given the nature of the firm's exposures, no additional policies for hedging and mitigating credit risk are in place. The firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FSA Handbook when calculating risk weighted exposures in respect of its debtors. All bank balances are subject to a risk weightings in accordance with BIPRU 3.4 of the FSA Handbook.

Market risk

The firm advises a dollar based Conduit and takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

Hedging strategies may be used from time to time to mitigate against potential foreign exchange losses and these are monitored by the Chief Operating Officer.

The firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FSA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Capital adequacy

Capital resources

As at 31 March 2011 the firm held regulatory capital resources of £331,960. This comprised solely of core Tier 1 capital.

Capital requirement

The Pillar 1 capital requirement for the coming year was £88,218. This has been determined by reference to the firm's Fixed Overheads Requirement ("FOR") and calculated in accordance with the FSA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53. The requirement is based on the FOR since at all times this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The FOR is based on annual expenses net of variable costs. The firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year. This is monitored by the Chief Operating Officer and reported to the board on a regular basis.

Satisfaction of capital requirements

Since the firm's ICAAP (Pillar 2) process has identified capital to be held over and above the Pillar 1 requirement of £84,000 as a result of stress testing and scenario analysis performed. The capital resources detailed above are considered adequate to continue to finance the firm over the next year. No additional capital injections are considered necessary and the firm expects to continue to be profitable.