

PILLAR 3 DISCLOSURES

Introduction

Blankstone Sington Limited (the Company) is incorporated in the UK and is authorised and regulated by the Financial Services Authority (FSA). As such, the Company has to comply with the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The Company is a limited licence firm that has a base capital requirement of €125,000.

Disclosure Policy

The Pillar 3 rules in BIPRU 11 set out the need for firms to publish certain details of their risks, capital and risk management in order to improve transparency and market discipline.

The Company makes the Pillar 3 disclosures available on its website, www.blankstonesington.co.uk, and the information is also available from the Company Secretary on request. The disclosures will be updated each year after completion of the annual audit and approval of the audited financial statements. The Company year end is 31 May.

The Company may omit information it deems immaterial. Materiality is based on the criterion that omission or misstatement would be likely to change or influence the decision of a person relying on that information. Accordingly where the Company has considered an item to be immaterial it has not been disclosed. In addition, if the required information is deemed to be proprietary or confidential then the Company may take the decision to exclude it from the disclosure. It defines proprietary information as that which, if shared, would undermine its competitive position. It defines information as confidential where there are obligations binding it to confidentiality with customers, suppliers or counterparties. If information is omitted for either of these reasons this will be clearly stated.

The information in this document has not been audited by the Company's external auditors.

Capital resources

The FSA's prudential regime is split into 3 Pillars as follows:

- Pillar 1 - this prescribes the minimum capital requirements that the Company needs to hold and is the highest of
 - €125,000
 - the sum of its market and credit risk requirements, and
 - its fixed overhead requirement
- Pillar 2 - this requires firms to analyse the risks to the business and then consider whether the risks are mitigated to an appropriate standard. This is part of the Internal Capital Adequacy Assessment Process (ICAAP). If the Company considers that the risks are not adequately mitigated then it will allocate additional capital to cover those risks.

- Pillar 3 - this requires firms to develop a set of disclosures which allow market participants to assess key information about the Company's risks, controls and capital position.

The Company's Pillar 1 requirement is determined by reference to its fixed overhead requirement. The conclusions from the ICAAP are that no additional capital is required.

In summary the Company's capital adequacy calculation is as follows:

| | |
|---|--------------|
| Tier 1 capital (shareholders' funds) | £3,868k |
| Add trading book profit for the 12 months | £(3)k |
| Less free deliveries | £9k |
| fixed overhead | <u>£749k</u> |
| | <u>£758k</u> |

Surplus capital at 31 May 2011 **£3,107k**

Risk management

The Company's operations expose it to a variety of financial risks that include the effects of market risk, credit risk and liquidity risk. These are considered to be the principal risks and uncertainties which the Company faces. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company. Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies are managed by the finance department utilising the procedures manual that sets out guidelines for the management of credit and liquidity risk.

Market risk – Market risk arises from the dependency on fee income which is based *inter alia* on the valuation of the underlying client portfolios being managed. Market risk also arises due to fluctuations in interest rates which have a direct impact on the level on interest income that the Company earns on bank deposits. The impact of movements in the stock market valuations and movements in interest rates are closely monitored by management to assess the impact on the business and determine management actions.

Credit risk - The credit risk arises from exposure to clients and various business counterparties. Before entering into any agreements, the Company always carefully appraises third parties to ensure risks are minimised.

Liquidity risk - The principal liquidity risk to which the Company is exposed arises from the management of short-term cash flows. Such cash flows arise from the collection of money or stock from clients and payments to market counterparties. The Company actively manages cash flows to ensure it has sufficient funds available to meet its liabilities on time.

Remuneration policy

The Company is a Tier 4 firm for the purposes of the FSA's Remuneration Code.

Staff receive a fixed salary paid monthly. A discretionary bonus may be awarded which is dependent on the overall profitability of the company. An individual's share of the bonus pool is dependent on a number of factors including responsibilities, contribution to the company and length of service.

The Remuneration Committee meets annually to review the level of salaries and consider the bonus award.

The total remuneration cost for the year of staff within the scope of the Remuneration Code was £834,000.