

**Edgbaston Investment Partners Limited**  
**Pillar 3 Disclosure Statement**  
**(FRN 485674)**

**Introduction**

Edgbaston Investment Partners Limited (“Edgbaston”) is a BIPRU €50,000 limited license firm authorised by the Financial Services Authority (“FSA”). The FSA is responsible, in the United Kingdom, for the implementation of the 2006 Capital Requirements Directive of the European Union, which set up a new regulatory capital framework for the financial services industry. The new framework consists of three pillars:

- Pillar 1 specifies the minimum capital that Edgbaston is required to carry to cover business risks;
- Pillar 2 sets out the supervisory review process to be used by Edgbaston and the FSA to determine whether additional capital should be maintained against any other risks not covered under Pillar 1;
- Pillar 3 specifies the disclosure requirements which Edgbaston is required to make of its capital, risk exposures and risk assessment processes.

The FSA regulations for the disclosures required under Pillar 3 are contained in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). Further information on BIPRU can be found on the FSA’s website ([www.fsa.gov.uk](http://www.fsa.gov.uk)). These rules allow a business to exclude disclosures where the information is regarded as immaterial, proprietary or confidential. Disclosures have been made in this document in compliance with BIPRU11 unless that disclosure has been regarded as immaterial, proprietary or confidential. Additional information is available from Edgbaston’s Chief Compliance Officer ([mmyles@edgbastonip.com](mailto:mmyles@edgbastonip.com)).

**Business structure**

The disclosures contained in the document relate to Edgbaston’s business. Edgbaston is a privately held firm that is majority owned and controlled by employees that are active in its business.

Edgbaston’s audited financial statements are prepared in accordance with UK GAAP. Edgbaston has one wholly owned subsidiary – Edgbaston Investment Partners, Inc. (“EIP Inc.”). EIP Inc. is fully consolidated with Edgbaston as part of the Edgbaston Group for audit and regulatory capital purposes. Edgbaston is 49.9% owned by Silchester Partners Limited (‘Silchester’).

There is no current or foreseen material practical or legal impediment to transfers of intra-group capital between Edgbaston and EIP Inc. Because Silchester is only a minority shareholder in Edgbaston, Silchester is unable to require Edgbaston to make any formal transfer of capital to it. Likewise, Edgbaston cannot compel Silchester to make any loan or capital injection.

**Risk Management**

Edgbaston’s Board of Directors is responsible for determining the risk strategy of the company, setting the company’s risk appetite and ensuring that risk is monitored and controlled effectively. The Board of Directors works closely with the Compliance and Risk Management Groups. The company’s risk management framework has been designed and implemented and will be updated, as necessary, to take into account material changes in Edgbaston’s business, capital obligations, or resource requirements. Edgbaston’s risk appetite is regularly reviewed by considering various stress tests and sets out the amount and type of risk that it regards as appropriate for Edgbaston to accept in order to execute its strategy.

Edgbaston's culture ensures that each member of staff is focused on improving procedures and minimising risk to Edgbaston's business fostering an enterprise-wide risk management culture to establish a robust risk, capital and performance management setup.

Edgbaston is exempt from the operational risk requirement at Pillar 1 and is not required to calculate an operational risk capital charge. As a BIPRU limited license firm Edgbaston's minimum capital requirement is the greatest of:

- The base capital requirement of €50,000;
- The sum of its capital and risk requirements; and
- Edgbaston's fixed overhead requirement.

As market and credit risks are not considered material for Edgbaston, the fixed overhead requirement is the greatest and therefore establishes the minimum capital requirement of £275,207. As at 30<sup>th</sup> April 2011, Edgbaston's capital reserves are as follows:

Tier 1 Capital	£637,309
Deductions from Tier 1 Capital	£0
Tier 2 Capital	£0
Deductions from Tier 2 Capital	£0
Tier 3 Capital	£0
Deductions from Tier 3 Capital	£0
Total capital resources, net of deductions	£637,309
Fixed Overhead Capital Requirement	£275,207
Surplus over ICAAP Capital	£362,102

Edgbaston's ICAAP analysis highlights that Edgbaston had surplus liquid capital as of 30<sup>th</sup> April 2011 compared to the capital resource requirements computed under applicable capital resource requirement rules known as **Pillar 1**.

Under Pillar 2 of the CRD, the firm is required to enact an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP document is prepared by the Risk Management and Compliance Groups, under the supervision of Edgbaston's Compliance Officer. However, the sufficiency of the ICAAP is ultimately the responsibility of Edgbaston's Board of Directors. In its ICAAP analysis, Edgbaston has prepared various scenario analyses. The most extreme scenario (that of a complete wind down of the firm over a three month period with no revenues received during this time), highlights the fact that Edgbaston need to maintain £304,394 of capital or a further of £29,187 over its Pillar 1 obligations. Despite this conservative (and extreme) example, Edgbaston has surplus liquid capital compared to the capital resource requirements computed under **Pillar 2**.

As a long only asset manager that primarily invests client assets in publicly traded Asia-Pacific equity securities (excluding Japan), Edgbaston is mainly exposed to operational risk; however there is additional exposure both to business risk and credit risk. All of these exposures are regarded as typical for a business engaged in the activity of asset management. Edgbaston's Chief Compliance Officer, who is independent of Edgbaston's investment function, acts as risk manager and monitors and manages the risk exposures of the business with input from Edgbaston's various business groups and operational partner (Silchester). In assessing the risk appetite of the business, consideration has been given to identifying the material risks facing Edgbaston's operations. These include risks at both the client level and at the firm entity level taking the form of loss of revenue, loss of assets or higher cost. These risks are detailed in Edgbaston's Internal Capital Adequacy Assessment Document ("ICAAP") and are reviewed by the Risk Management and Compliance Groups on a regular basis. Two specific factors have been considered in defining the risk appetite; firstly, the

likelihood of occurrence of an event and secondly, the impact level of an event. Further information on Edgbaston's risk exposures are set out below:

- **Credit Risk.** As an asset management company, Edgbaston is subject to credit risk. Edgbaston receives investment management fees on a monthly basis. These fees are computed based on the value of each underlying investor's holdings in the commingled funds. Investment management fees are paid within five business days of each month. As the commingled funds are "long only" equity funds that cannot use leverage, margin or derivative products, there is little, if any, credit risk associated with the fees. Edgbaston's free cash flow is placed on deposit each month. Deposits are normally split between financial institutions depending on available interest rates. The eligible banks are each approved by the Edgbaston Board. The credit rating and financial strength of each bank is subject to an annual re-appraisal by the Risk Management Group. The Dealing Group also monitors certain credit ratings on a monthly basis. Edgbaston does not utilise any risk mitigation techniques (i.e., credit default swaps) to minimise our financial exposure to bank deposits.
- **Market Risk.** As an asset management company, Edgbaston's portfolios are subject to market risk. Edgbaston's fees are asset based fees and Edgbaston's revenue increases as AUM increase and will fall if as AUM fall. Edgbaston has structured its business so that many costs are variable (i.e., custody costs) and will fall as its assets under management fall. More importantly, Edgbaston keeps base salaries low and remunerates employees through discretionary bonuses. Surplus liquid capital is not at risk until a loss fully offsets Edgbaston's profit before remuneration and taxes ("PBRT") less any committed salaries and staff benefits. Edgbaston's core regulatory capital, surplus capital and free cash flow is primarily invested in (i) cash deposits, and (ii) unregulated collective investment schemes sponsored by Edgbaston. Cash deposits are not subject to market risk. The investment in the unregulated collective investment scheme is subject to market risk as its value may increase/decrease depending on portfolio performance. To mitigate against market risk, Edgbaston's Board does not invest capital that is (i) needed to meet core regulatory requirements, or (ii) needed to fund the operations of the business.
- **Liquidity Risk.** Liquidity Risk consists of two primary items – funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the counterparties who provide Edgbaston with short-term funding will withdraw or not roll over that funding. Market liquidity risk is the risk of a generalised disruption in asset markets that make normally-liquid assets illiquid.

Until such time that Edgbaston's AUM are of a significant level then there will be heavy reliance on the research agreement in place with SII LLP. Silchester is a company with significant financial means, details of which can be disclosed on request, and is unlikely to default on its financial obligations under the Shareholders Agreement. In the unlikely event that Silchester were to default on its obligations and Edgbaston had less than US\$100 million of assets under management, Edgbaston would face severe financial difficulties. As a result, Edgbaston has some limited exposure to funding liquidity risk.

Edgbaston also has limited exposure to market liquidity risk. For example, one of Edgbaston's banking counterparties could suffer severe financial distress and elect not to return some of Edgbaston's cash deposits. Alternatively, redemptions from its unregulated collective investment schemes could be suspended, preventing Edgbaston from redeeming its investments on a timely basis.

- **Operational Risk.** Operational risk refers to the risk of a direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Edgbaston attempts to mitigate the impact of operational risks by (i) maintaining substantial financial resources, (ii) aligning the interests of all staff and shareholders with supervision of the operations of the business through remuneration/ dividends, (iii) maintaining a risk matrix and key operating procedures (“KOPs”) for all material business areas, (iv) reviewing the operations of all material business groups annually, and (v) keeping Edgbaston’s business, structure and operational requirements relatively simple.

- **Concentration Risk.** Concentration risk is the risk that exposures to specific sectors or asset concentration could result in losses to Edgbaston or our business. Edgbaston principally invests client assets in publicly traded Asia-Pacific equity securities (excluding Japan) and will earn its revenue primarily from a US client base (in the meantime Edgbaston is funded by a research agreement in place with Silchester). Edgbaston’s business could suffer (i) from a decline in its investment performance relative to benchmark indices, (ii) if US institutional investors spoil on investing overseas and/or shift their asset allocations to private equity, hedge funds, commodities or other types of investments, or (iii) the US dollar sharply appreciates, negatively impacting relative returns. There is little Edgbaston can do to minimise this risk except focusing on keeping its business simple and aligned with clients, and minimising overheads.
- **Business Risk.** Business risk arises from changes in the core structure of the business that would prevent Edgbaston from carrying out its business plan and desired strategy. Edgbaston is a small, closely held organisation, where senior management also own a significant stake in the business. All material structural changes to Edgbaston’s business are subject to discussion at Edgbaston Board level. The Edgbaston Board consults the Compliance and Risk Management Groups before agreeing to any of the following material transactions:
  - Before an investment, loan or capital subscription is made;
  - Before an investment is made in Edgbaston’s collective investment scheme;
  - Before any material change in Edgbaston’s cost structure or base salaries; or
  - Before any share buyback occurs.
- **Interest Rate Risk.** Edgbaston does not engage in any principal trades or run any trading book exposures that could be subject to interest rate risk. From a corporate perspective (given its cash balances) and assuming no impact on investment performance, Edgbaston would expect to benefit from increases in interest rates as its interest income would rise.
- **Insurance Risk.** Edgbaston maintains fiduciary liability (also referred to as professional indemnity), crime (also referred to as errors and omissions) and ERISA insurance cover with Chartis UK Limited (formerly AIG (UK) Limited). Professional Indemnity, Crime and ERISA fidelity bond cover is set at a limit which Edgbaston considers appropriate for the business of Edgbaston and subject to a deductible which Edgbaston can reasonably afford to meet if called upon. Edgbaston would be exposed to potential losses in the event that an error occurred and Chartis UK Limited was unable to recover anticipated insurance settlement proceeds. Edgbaston attempts to ensure that insurance is sourced from well capitalised insurance firms to minimise the risk of loss arising from insurance risk.

### **Capital Resources**

Edgbaston has calculated its capital needs in accordance with the relevant FSA regulations. Edgbaston has surplus regulatory capital.

### **FSA Remuneration Code**

The Remuneration Code's objective is to ensure that all regulated firms and their related parties (i) have robust governance arrangements in place, (ii) have established remuneration controls for staff members whose professional activities could have a material impact on the risk profile of their firms, and (iii) have prepared qualitative and quantitative disclosures of their remuneration policies. Edgbaston Investment Partners Limited is authorised and regulated by the FSA. As a result, Edgbaston Investment Partners Limited, its members and employees and identified staff that work for its wholly owned subsidiary, Edgbaston Investment Partners, Inc., are subject to the Remuneration Code. For ease of reference, Edgbaston Investment Partners Limited and Edgbaston Investment Partners, Inc. will be referred to as "Edgbaston" in this disclosure. Edgbaston is a BIPRU Limited License Firm and, under the classification provisions set out in the Remuneration Code, is considered to be a Tier 4 firm.

### **Applicability of the Remuneration Code**

The Principles of the Remuneration Code are codified in the SYSC Handbook 19A. Under SYSC 19A.3.7, Edgbaston must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management. The policies, procedures and practices must not encourage excessive risk-taking. The FSA expects Edgbaston to apply the Remuneration Code in a proportionate manner based on the size, nature and complexity of its business. Edgbaston is required to assess its own characteristics and to develop and implement remuneration policies and practices that appropriately align the firm with the risks faced by the business. Edgbaston must also ensure that adequate and effective incentives are given to its employees and members (collectively defined as "**Staff**"). The FSA is not expecting all firms to adhere to the remuneration requirements in the same way and to the same extent, i.e. there is no 'one-size fits all' approach. In developing its policies, procedures and practices, Edgbaston has taken into account its structure and the size, nature and complexity of its business.

### **Identification of Code Staff**

As a Tier 4 firm, Edgbaston is required to identify those members of Staff who are covered by the Remuneration Code ("**Code Staff**"). Because of its small size and the responsibilities assumed by Staff, Edgbaston considers all Staff to be Code Staff. Code Staff generally includes any Staff who are Approved Persons on the FSA Register, senior management of the firm, Staff engaged in control functions (such as dealing), Staff that receive total remuneration in an amount similar to that as other members of senior management, risk takers and Staff whose professional activities (including members of the marketing and client service, operations or administration groups) could have a material impact on Edgbaston's risk profile or day to day business operations. The more burdensome provisions of Principle 12 of the Remuneration Code (i.e., the requirement to restrict the ratio of discretionary payments to base salary/bonuses, to defer remuneration and/or bonuses over a period of time or to pay a portion of remuneration and bonuses in shares) do not apply to Edgbaston's business.

### **Investment Approach; Risk Tolerance**

Edgbaston invests client assets in publicly traded, Asia-Pacific (excluding Japan) equity securities. Edgbaston invests in developed markets, "emerging" markets such as Taiwan, Thailand, Malaysia, South Korea and "frontier" markets such as Pakistan. Edgbaston does not short stocks, utilise derivatives or margin, underwrite securities, issue or write options, futures, warrants or over the counter ("**OTC**") instruments, or allow its clients to participate in securities lending programmes. Edgbaston does not invest in fixed income instruments, physical real estate, commodities or contracts for difference. Assets included in client portfolios are priced by each client's fund administrator using closing market prices and exchange rates. Edgbaston does not invest in "hard to value" assets. Edgbaston does not speculate in stock markets or charge performance fees. It is therefore reasonable to state that

Edgbaston does not trade in unusual or high risk products and has designed its systems and controls with this in mind.

Edgbaston looks to add investments to client portfolios when they will help to maximise the earnings, assets and dividends of our investment programme. Such investments may be funded from the cash flow of the existing portfolio or by the sale of investments which have come to offer less value. This approach is generally evolutionary rather than revolutionary. Edgbaston usually maintain client cash balances at minimal levels. Typically, about 60 - 80 investments will be owned in client portfolios with a reasonable diversification by country and industry. Edgbaston analyse currency fundamentals and periodically undertake forward currency hedging transactions, although such activity is limited to 20% of the portfolio and is not intended as a major part of the overall investment management programme. Edgbaston have no bias in terms of market capitalisation and seek opportunities in small, mid and large cap companies (although a minimum market cap of US\$100m does apply). In assessing risk, Edgbaston does not refer to stock market volatility. Rather, Edgbaston sees risk as the possibility of paying a price above the intrinsic value of a business, thereby suffering a permanent loss of capital.

### **Edgbaston's Remuneration Policy**

Edgbaston does not charge performance fees and receives ad valorem fees from its client accounts on a monthly basis. Costs are monitored closely. In order to ensure alignment between Edgbaston's members and its employees, the Shareholders Agreement that governs Edgbaston's business specifies the ratio of profits less direct costs (internally referred to as profits before remuneration and tax or "PBRT") is shared. The ratios on a longer term basis are:

60.0%	to employees as remuneration
40.0%	to shareholders as dividends

Establishing these ratios in Edgbaston's Shareholders Agreement ensures that both employees and shareholders are focused on growing Edgbaston's business in a profitable and efficient manner. While 60.0% of PBRT is distributed to employees as remuneration, the split between each member of Staff is determined by the Remuneration Committee.

The current members of the Remuneration Committee are Charu Fernando, Tim Linehan, Matthew Myles, Sarah Nichols and Corinn Davis. The Remuneration Committee obtains feedback from the members of the firm on the performance and contribution of each member of Staff. Remuneration distributions made to Staff are not based on the profitability of any specific investment recommendation, the implementation of a given trade or set of trades or the growth/retention of client assets. In determining the levels of remuneration and/or discretionary bonuses paid to each member of Staff, the Remuneration Committee considers the following:

- **Contribution.** Edgbaston want to reward Staff for their contribution to the success of the firm over a multi year period and will consider their ownership of various responsibilities, whether related to investment, marketing and client service, investment administration, or firm management. Each area is important to Edgbaston's ongoing viability. In order to assess individual contribution, Edgbaston utilises a framework that considers four key areas:
  1. **Skill and expertise** are necessary attributes for undertaking any role. These can be tangible such as the ability to build a spreadsheet or organize a series of tasks (generally easier to measure) or they can be intangible such as exercising judgement, the ability to act sensibly under pressure or problem solving (harder to measure). Some weighting will also be paid to the improvement in these skills over time.

2. **Reliability** measures the ability of an individual to get assigned tasks done on time with the requisite amount of care and accuracy. Clients, prospects and colleagues should be able to rely on individuals to do what is promised and deliver it as planned. Part of this assessment in this area also needs to address how the individual manages the process when deadlines are not met and deliverables are behind schedule.
  3. **Hard work**, an assessment of the effort expended is also a useful measure not just as a proxy for commitment but also to ensure the effort being expended is commensurate with the value of the work being produced. If two people are making a similar contribution but one does so with half the effort it raises issues of the suitability of the work assigned to individuals and whether the skill set is appropriate for the job.
  4. **Team play** takes into account factors such as an individual's professionalism, helpfulness, and flexibility. For example, does the person make a positive or negative contribution to the team and its working atmosphere (it could be that someone produces good work but leaves havoc in their wake).
- **Market Levels.** It is reasonable to offer remuneration above general market levels when Edgbaston believes that the value justifies such a course. Edgbaston also recognises that the firm must be competitive to attract and retain good colleagues in their various areas of activity.
  - **Success of Edgbaston.** If Edgbaston is successful there should be a benefit to all. It must of course be recognised that a system of this sort cannot deliver when the business is not doing well.
  - **Split Between Fixed and Discretionary Components.** Fixed aspects of remuneration should be more oriented to those with a reliable proven record of adding value and discharging responsibility. Where such a record has not been established the flexibility of discretionary payments is more appropriate. Fixed aspects of expenditure should be kept low as this provides the greatest level of flexibility and allows Edgbaston to withstand various stresses – performance volatility, loss of client assets, exchange rate volatility and changes in interest rates – without needing to terminate staff.

The Remuneration Committee review Edgbaston's liquidity and capital requirements before making any discretionary payments or setting fixed levels of remuneration (i.e., base salaries). Together, they will also ensure that the payments do not adversely impact the firm's ability to meet the obligations that it may owe from a client, legal, regulatory (e.g. FSA regulatory capital and FSA liquidity requirements) or other financial perspective.

### **How Do the Specific Principles of the Remuneration Code Apply to Edgbaston**

*Principle 1: Risk Management & Risk Tolerance (SYSC 19A.3.7). A firm must ensure that its Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the firm.*

Edgbaston believes that its Remuneration Policy is consistent with and promotes effective risk management. Edgbaston's PBRT model ensures that all employees are focused on growing Edgbaston's business in a profitable and efficient manner. The fact that remuneration distributions made to Staff are not based on the profitability of any specific investment recommendation, the implementation of a given trade or set of trades or the growth/retention of client assets further removes short term incentives. Performance fees are not charged to clients preserving a longer term perspective. Fixed elements of remuneration are kept to a relatively low level to ensure that the firm can withstand various market pressures while still meeting its ongoing obligations to clients and other market participants.

*Principle 2: Supporting Business Strategy (SYSC 19A.3.8). A firm must ensure that its Remuneration Policy is in line with the business strategy, objectives, values and long-term interests of the firm.*

Edgbaston documents its business strategy, objectives, values and long term objectives in its Compliance Manual and Personnel Handbook. Its investment philosophy, investment guidelines, and a summary of risks inherent in its investment approach are set out in the Offering Memorandum of its various commingled funds. Edgbaston does not charge performance fees and is not motivated to maximise short term performance but rather looks to achieve long term appreciation of client values.

*Principle 3: Conflicts of Interest (SYSC 19A.3.9). A firm must ensure that its Remuneration Policy includes measures to avoid conflicts of interest.*

Edgbaston has a documented Conflicts of Interest Policy and Inventory included in its Compliance Manual. This was done in order to identify, manage and monitor Edgbaston's conflicts of interest. As all investment management fees are paid on an ad valorem basis, allocations of investment opportunities are principally made on a pro rata basis and Edgbaston does not invest in so-called "hard to value" assets, Edgbaston does not believe that remuneration presents a material conflict of interest to the firm's clients.

*Principle 4: Governance (SYSC 19A.3.10 – 19A.3.13). A firm must ensure that its governing body in its supervisory function adopts and periodically reviews the general principles of the Remuneration Policy and is responsible for its implementation.*

Edgbaston's Management Group has reviewed and adopted this Policy in conjunction with the Compliance Group. Edgbaston will review and amends its Policy once additional guidance has been provided by the FSA with respect to limited licence BIPRU firms. As a general rule, Edgbaston periodically assesses its policies and procedures when the business changes or the need arises.

*Principle 5: Control Functions (SYSC 19A.3.14-17). A firm must ensure that employees engaged in control functions (i) are independent from the business units they oversee; (ii) have appropriate authority; and (iii) are remunerated adequately to attract qualified and experienced staff and in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. A firm must ensure that the remuneration of the senior officers in risk management and compliance is directly overseen by its governing body, or remuneration committee, as appropriate.*

The Management Group, who have a significant amount of experience in the industry and are involved in the day to day business, are responsible for ensuring that the operational and compliance controls are adequately resourced and operating effectively. All material issues identified in monitoring reviews that cannot be resolved in a timely and appropriate manner are raised with the Management Group. Given Edgbaston's size, scope and complexity, Edgbaston believes that these controls are adequate.

*Principle 6: Remuneration & Capital. A firm must ensure that variable remuneration does not limit the firm's ability to strengthen its capital base.*

In its ICAAP, Edgbaston assessed its capital requirements. Edgbaston has also documented the material and non-material risks facing its business and whether additional capital is necessary to mitigate those risks. Edgbaston looks to ensure that fixed elements of remuneration are kept to a relatively low level to ensure that the firm can withstand various market pressures while still meeting its ongoing obligations to clients and other market participants.

*Principle 7: Exceptional Government Intervention*

Edgbaston has not, and cannot, benefit from exceptional government intervention. As a result, this principal does not apply.

*Principle 8: Profit-based Measurement and Risk Adjustment (SYSC 19A.3.22-28), adopted from Table 1. Assessments of financial performance used to calculate variable remuneration components or pools of variable remuneration components must be based principally on profits. A firm must ensure that its total variable remuneration is generally considerably contracted where subdued or negative financial performance of the firm occurs, taking into account both current remuneration and reductions in payouts of amounts previously earned.*

Edgbaston operates a PBRT model. Under this model, discretionary payments are made on the basis of audited profits. Discretionary payments automatically contract in the event of subdued or negative performance.

*Principle 9: Pension Policy (SYSC 19A.3.29). A firm must ensure that its pension policy is in line with its business strategy, objectives, values and long-term interests; and when an employee leaves a firm, any discretionary pension benefits are held by the firm for a period of five years in designated instruments.*

Edgbaston does not offer any defined benefit pension scheme.

*Principle 10: Personal Investment Strategies (SYSC 19A.3.30-31). Share Based Awards.*

Principle 10 only applies to firms that apply share-based awards. Therefore, Principle 10 does not apply to Edgbaston.

*Principle 11: Facilitating Avoidance (SYSC 19A.3.32). A firm must ensure variable remuneration is not paid through vehicles or methods that facilitate avoidance of the Remuneration Code.*

Avoidance of the Remuneration Code is not an issue for Edgbaston as the most draconian provisions of the Remuneration Code (i.e., the deferral of remuneration and bonuses paid to Staff, the payment of remuneration and bonuses in shares, and the requirement to retain additional capital) do not apply to the firm as it is considered a Tier 4 firm.

*Principle 12: Remuneration Structures (SYSC 19A.3.33 – 53). A firm must ensure that the structure of an employee's remuneration is consistent with and promotes effective risk management. A firm must ensure that where remuneration is performance-related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual; the business unit concerned; and (c) the overall results of the firm. When assessing individual performance, financial as well as non-financial criteria must be taken into account.*

*A firm must ensure the assessment of performance is set in a multiyear framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period that takes account of the underlying business cycle of the firm and its business risks.*

*A firm must not award, pay or provide guaranteed variable remuneration unless it is exceptional, occurs in the context of hiring new Code Staff and is limited to the first year of service with the firm. A firm must ensure that payments related to the early termination of a*

*contract reflect performance achieved over time and are designed in a way that does not reward failure.*

Edgbaston's Remuneration Committee reviews the factors set out under "Edgbaston's Remuneration Policy" as well as the firm's overall profitability (through the PBRT model) when setting remuneration levels. Edgbaston's process for paying guaranteed bonuses to new Staff is consistent and compliant with this principle.

### **Disapplication of Remuneration Code Provisions**

Under the Remuneration Code, Edgbaston is required to state which aspects of the Remuneration Code that it will not apply to the firm and to Code Staff.

Given the limited size, scope and nature of Edgbaston's activities and consistent with the explicit guidance given by the FSA regarding Tier 4 firms, Edgbaston has disapplied the following rules as they are not appropriate to our business:

- SYSC 19A.3.44 – Leverage for fixed and variable components of remuneration
- SYSC 19A.3.47 – Retained shares and other financial instruments
- SYSC 19A.3.49 – Deferral
- SYSC 19A.3.51 and 52 – Performance adjustment

### **Other Disclosures**

The approach of the business to assessing the adequacy of its internal capital to support current and future activities is contained in Edgbaston's ICAAP document. This process includes an assessment of the specific risks to Edgbaston's business and the internal controls in place to mitigate those risks. These are tested under different scenarios in order to provide a robust picture of exposures for the business. Finally, an assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital. The required capital level has been assessed, in accordance with Pillar 2, to be less than the Pillar 1 requirement – which is the minimum level of capital which the business is required to maintain and is the fixed overhead requirement.