Registered No: 3514660

PHOENIX ASSET MANAGEMENT PARTNERS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st MARCH 2008

Phoenix Asset Management Partners Limited

Directors

G.S. Channon
Sir Peter Thompson
S. Tatters
Mrs. C. Maby

Secretary and Registered Office

Mrs K. Wood
64-66 Glentham Road, Barnes, London SW13 9JJ

Auditors

Moore Stephens LLP
St. Paul's House, Warwick Lane, London EC4M 7BP

Bankers

C. Hoare & Co
37 Fleet Street, London EC4P 4DQ

Solicitors

Clifford Chance
200 Aldersgate Street, London EC1A 4JJ

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31st March 2008

The principal activity of the Company is the provision of fund management services to the Phoenix UK Fund, an offshore Fund based in the Bahamas, and segregated accounts for a number of UK pension funds. The investment philosophy is inspired by Warren Buffett and Benjamin Graham. These funds are mainly invested in UK listed companies and cash deposits held in a concentrated portfolio of usually less than 20 companies.

In addition to an annual management fee earned on the Net Assets under management, performance fees are earned only if the Net Asset Value for the Phoenix UK Fund has increased by 5% plus the annual UK inflation rate or in the case for the pension funds annual returns have outperformed the All Share Index. Although net returns for 2007 were behind the ASX they were still positive hence a small rise in Gross Profit on a like for like basis.

The principal risks and uncertainties of the company are dependent on the Investment Manager, Gary Channon, continuing to manage the Funds. The price of the shares in the funds can go down as well as up, thereby reducing potential management fees or with persistent underperformance increased risk of losing a pension client or a Phoenix UK Fund investor. Despite the underperformance in investment returns from the last three years results, the Fund has still outperformed significantly since it launched and the Directors are optimistic about the future.

The company is authorised and regulated by the Financial Services Authority, and conducts its business in accordance with those regulations.

Phoenix Asset Management Partners Limited

Report of the Directors (Continued)

Results and Dividends

The result for the period before dividends was a profit of £1,006,271 (2007: £823,840).

The dividends for the period were £1,025,015 (2007: £634,013).

Directors and Directors' Interests

The directors' interests in the share capital of the company is as follows:

	At 31st March 2008 Ordinary Shares	At 31st March 2007 Ordinary Shares
G.S. Channon *	90,002	90,002
Sir Peter Thompson	10,000	10,000
Mrs. C. Maby	-	-
S. Tatters	-	-

* 90,001 shares are owed by Channon & Co Limited. G.S. Channon owns 63% of the share capital of Channon & Co. Ltd, and virtually all the remainder is owned by Mrs. Channon, G.S. Channon's wife.

Share options valued at £7,103 were granted to C. Maby on 30th March 2008. The number of shares granted were 792 and are exercisable one year and one day from the date of grant.

Auditors

Moore Stephens LLP will be reappointed as the company's auditors in accordance with the elective resolution provided by the company under section 386 of the Companies Act 1985.

Each of the persons who are directors at the time when this report is approved has confirmed that:

(a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the company's auditors for that purpose, in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information .

By Order of the Board on 18 July 2008

G. CHANNON - Director

Phoenix Asset Management Partners Limited

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which 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 1985. 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.

Independent Auditors' Report to the Shareholders of Phoenix Asset Management Partners Limited

We have audited the financial statements of Phoenix Asset Management Partners Limited for the year ended 31st March 2008 which are set out on pages 5 to 15. 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 Section 235 of the Companies Act 1985. 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 auditor's 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 described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st March 2008 and of its result for the period then ended;

- The financial statements have been properly prepared in accordance with the Companies Act 1985; and

- The information given in the directors' report is consistent with the financial statements.

Moore Stephens LLP

St. Paul's House,
London, EC4M 7BP

MOORE STEPHENS LLP

Registered Auditor
Chartered Accountants

23 July 2008

Phoenix Asset Management Partners Limited

Profit and Loss Account
For the year ended 31st March 2008

	Note	2008	2007
Turnover			
Management fees	2	2,416,386	2,169,956
Performance fees	2	-	-
Gross Profit		2,416,386	2,169,956
Administration expenses		(978,500)	(985,093)
Operating Profit	3	1,437,886	1,184,863
Interest receivable	4	7,719	9,133
Profit on Ordinary Activities before Taxation		1,445,605	1,193,996
Tax on profit on ordinary activities	7	(439,334)	(370,156)
Profit on Ordinary Activities after Taxation		1,006,271	823,840
Dividends	8	(1,025,015)	(634,013)
(Loss)/Profit for the Period	13	£ (18,744)	£ 189,827

Statement of total recognised gains and losses

There are no recognised gains or losses other than those included in the profit and loss account.

Phoenix Asset Management Partners Limited

Balance Sheet - 31st March 2008

	Note	2008	2007
Fixed Assets			
Tangible assets	9	32,790	12,103
		32,790	12,103
Current Assets			
Debtors	10	639,371	572,851
Cash at bank and in hand		287,161	161,896
		926,532	734,747
Creditors, amounts falling due within one year	11	(394,998)	(209,374)
Net Current Assets		531,534	525,373
Total Assets Less Current Liabilities		564,324	537,476
Capital and Reserves			
Ordinary shares	12	100,002	100,002
Profit and loss account	13	418,730	437,474
Share reserve	13	45,592	-
Shareholders' Funds	13	£ 564,324	£ 537,476

The financial statements were approved by the Board on 18 July 2008
and signed on its behalf by

G.S. CHANNON Director

Phoenix Asset Management Partners Limited

Cash Flow Statement
For the year ended 31st March 2008

	Note	2008	2007
Net Cash Inflow from Operating Activities	16a	1,589,026	1,052,330
Returns on Investment and Servicing of Finance	16b	7,719	9,133
Taxation		(416,406)	(604,636)
Capital Expenditure	16b	(30,059)	(6,239)
Equity Dividends Paid		(1,025,015)	(634,013)
Increase/(Decrease) in Cash	16c	£ 125,265	£ (183,425)

Notes

1. **Principal Accounting Policies**

(a) Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards within the United Kingdom.

(b) Tangible fixed assets and depreciation

Tangible fixed assets are depreciated on the straight line basis over the period of their estimated useful lives at the following annual rates:

Furniture and equipment	- 33% per annum
Computer equipment	- 33% per annum
Leasehold improvements	- 33% per annum

(c) Operating leases

Rental payments made under operating leases are charged to the profit and loss account as incurred.

(d) Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at rates that are expected to crystallise based on current tax rates and law.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different to those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that they will be recovered. Deferred tax assets and liabilities are not discounted.

(e) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Differences arising from rate movements between the due date and the actual payment date are taken to the profit and loss account.

(f) Share based payments

The company has applied the requirements of FRS20 share based payments. The company engages in equity settled share based payment transactions in respect of service received from certain members. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company's share price over the life of the option and other relevant factors.

(g) Pensions

Contributions to employees' personal pension plans are expensed as incurred.

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

2. Turnover

Turnover, which is stated net of value added tax, is attributable to one continuing activity, the supply of investment management services. Fees are recognised once receivable.

Turnover is split between that received from within the UK £1,987,057 (2007: £1,779,355) and that received from outside the UK, being Bahamas based funds £429,329 (2007: £390,601).

Performance fees in respect of institutional accounts are recognised at 50% of the total amount earned during the period. The remaining 50% which is contingent on continued out performance is retained by the trustees until the earlier of the date of the termination of the account, or when the next performance fee becomes due, and is recognised accordingly. All other performance fees are recognised when they crystallise.

3. Operating Profit

The operating profit is stated after charging:

	2008 £	2007 £
Depreciation of owned fixed assets	9,372	15,073
Auditors' remuneration - audit fee	13,000	13,000
- taxation	2,350	9,850
- other	1,950	-
Operating lease rentals	30,500	27,000

4. Interest Receivable

	2008	2007
Bank interest receivable	£ 7,719	£ 9,133

5. Staff Costs

	2008 £	2007 £
Wages and salaries	533,830	543,257
Social security costs	59,952	69,994
Pension costs	13,940	32,506
	£ 607,722	£ 645,757

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

5. Staff Costs (Continued)

	2008	2007
The average number of employees during the year was as follows:		
Administrative/compliance	1	1
Fund management	4	4
	5	5

6. Directors' Emoluments

Emoluments of directors included within wages and salaries were as follows:

	2008	2007
Emoluments	304,813	447,155

The amount in respect of highest paid director is as follows:

Emoluments	154,500	273,083

Pension contributions were made on behalf of one director in the period.

7. Tax on Profit on Ordinary Activities

	2008	2007
UK corporation tax:		
UK corporation tax on profits for the period	447,129	370,156
Over provision in prior years	(7,795)	-
	£ 439,334	£ 370,156

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

7. Tax on Profit on Ordinary Activities (Continued)

Factors affecting the tax charge for the period

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2008	2007
Profit on ordinary activities before taxation	1,445,605	1,193,996
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	433,682	358,199
Effect of:		
Disallowed expenses and non-taxable income	16,356	10,586
Depreciation in excess of capital allowances	(2,909)	1,371
	£ 447,129	£ 370,156

8. Dividends

	2008	2007
Equity dividend on ordinary shares		
1st interim paid	250,003	100,001
2nd interim paid	100,001	78,001
3rd interim paid	250,003	175,004
4th interim paid	50,002	56,002
5th interim paid	100,001	75,002
6th interim paid	125,002	90,001
Final paid	150,003	60,002
	£ 1,025,015	£ 634,013

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

9. Tangible Fixed Assets

	Leasehold Improvements	Computer Equipment and Software	Furniture and Fixtures	Total
Cost				
At 1st April 2007	-	101,868	23,280	125,148
Additions	9,662	17,248	3,149	30,059
At 31st March 2008	9,662	119,116	26,429	155,207
Depreciation				
At 1st April 2007	-	89,814	23,231	113,045
Provided during the period	268	8,355	749	9,372
At 31st March 2008	268	98,169	23,980	122,417
Net book value				
At 31st March 2008	£ 9,394	£ 20,947	£ 2,449	£ 32,790
At 31st March 2007	£ -	£ 12,054	£ 49	£ 12,103

10. Debtors

	2008	2007
Trade debtors	550,584	493,165
Prepayments	26,589	26,738
Other debtors	32,907	12,574
Amounts owed by parent company	29,291	40,374
	£ 639,371	£ 572,851

11. Creditors: amounts falling due within one year

	2008	2007
Trade creditors	2,022	2,504
Corporation tax	214,129	191,201
Accruals	94,858	15,669
Other taxes and social security	83,989	-
	£ 394,998	£ 209,374

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

12. **Share Capital**

	2008	2007
Authorised		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
Authorised, allotted called up and fully paid		
100,002 Ordinary shares of £1 each	100,002	100,002

13. **Share Capital, movement on reserves and reconciliation of movements in shareholders' funds**

	Option Reserve	Share Capital	Profit and Loss Account	Total Shareholders' Funds
Balance at 1st April 2007	-	100,002	437,474	537,476
Accumulated profit for period	-	-	(18,744)	(18,744)
Option costs	45,592	-	-	45,592
As at 31st March 2008	£ 45,592	£ 100,002	£ 418,730	£ 564,324

14. **Related Party Transactions**

90,001 £1 shares are owned by Channon & Co Limited of which G.S. Channon is a director. During the period Channon & Co Limited recharged office administration expenses to the company amounting to £110,168 (2007 - £110,106). As at 31st March 2008 £29,291 (2007 - £40,374) was owed by Channon & Co Limited and G.S. Channon.

Sir Peter Thompson is the sole owner of Phoenix Asset Management (Bahamas). G.S. Channon and C. Maby are directors of Phoenix Asset Management (Bahamas), which acts as the investment manager of Phoenix UK Fund. During the period management fees of £429,329 (2007 - £390,601) and performance fees of £Nil (2007 - £ Nil) were receivable by the company from Phoenix Asset Management (Bahamas). £34,065 (2007 - £ Nil) of fees were outstanding at the year end.

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

15. Other Financial Commitments

At the period end the company had annual commitments under non-cancellable operating leases for land and buildings as set out below:

	2008	2007
	Land and Buildings	Land and Buildings
Operating leases which expire:		
Within 1 year	-	27,000
Over 5 years	36,000	-

16. Notes to the Statement of Cash Flows

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	2008	2007
Operating profit	1,437,886	1,184,863
Depreciation charges	9,372	15,073
(Increase)/decrease in debtors	(66,520)	16,348
(Decrease)/increase in creditors	162,696	(163,954)
Option cost	45,592	-
	£ 1,589,026	£ 1,052,330

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2008	2007
Returns on Investments and Servicing of Finance		
Interest received	£ 7,719	£ 9,133
Capital Expenditure		
Payments to acquire tangible fixed assets	(30,059)	(6,239)
	£ (30,059)	£ (6,239)

(c) Analysis of changes in net debt

	31st March 2007	Cash Flows	31st March 2008
Cash at bank	£ 161,896	£ 125,265	£ 287,161

Phoenix Asset Management Partners Limited

Financial Statements for the year ended 31st March 2008

Notes (Continued)

17. **Controlling Party**

In the directors' opinion the parent company at the period end is Channon & Co Ltd a company incorporated in the UK. The ultimate holding party of Channon & Co Ltd is Gary Channon.

18. **Share Option Scheme**

The company operates a share option scheme available to certain members of the company.

The options granted under the share scheme were valued on the basis of market prices at the time the options were granted and were calculated using the Black Scholes method with a 7.4% (2007: 5.3%) volatility. The risk free interest rate was assessed at 4.8% (2007: 5.5%).

The options were valued at £5.89 per share (2007: £10.545), the charge for the year being £45,592 (2007: £Nil.). The number of shares granted in the year was 1,948 at an exercise price of £80.40 per share.

Options	No.
Issued in 2007 at exercise price of £65.72	4,318
Issued in 2008 at exercise price of £80.40	1,948
Options exercisable at 31st March 2008	6,266

None of the options, granted and exercisable were exercised during the year.

All options issued have a three year life, exercisable from 1 year and 1 day from date of grant. The weighted average remaining contractual life is 2 years and 4 months.

BIPRU 11: Pillar 3 Disclosure

Introduction

Phoenix Asset Management Partners Limited ('PAMP') is authorised to conduct investment business under the Financial Services and Markets Act 2000 through membership of the Financial Services Authority ('FSA'). Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') requires BIPRU firms to make certain disclosures to market participants. These are known as Pillar 3 disclosures. PAMP is a BIPRU firm as defined in the FSA's rulebook and this document is designed to meet our Pillar 3 disclosure requirements.

Disclosure Policy

The PAMP directors' policy is to review and approve the issue of the Company's Pillar 3 disclosures on an annual basis, unless circumstances necessitate additional disclosures. Disclosures are prepared by the PAMP Finance Officer in conjunction with the preparation of the annual statutory accounts. The current chosen location for disclosure is the Company's annual accounts.

The BIPRU 11 requirements allow firms to omit one or more of the disclosures listed under BIPRU 11.5 if the information provided by such disclosures is not regarded as material. The requirements similarly allow firms to omit items of information from the BIPRU 11.5 disclosures if the information is regarded as proprietary or confidential. The PAMP members review any such omissions as part of the overall approval process.

Disclosure Basis

PAMP is a stand alone Limited company, consequently this disclosure is made on an individual basis under BIPRU 11.2.1

Disclosure Data

This disclosure is prepared in conjunction with the annual statutory accounts and FSA report covering the financial year ending 31st March 2008. As such it represents the first disclosure required under the BIPRU requirements.

Regulatory & Business Profile

Phoenix Asset Management Partners Ltd (PAMP) is a UK-established BIPRU limited licence firm. PAMP is an FSA authorised and regulated firm providing discretionary investment management services in the UK. As such it is operating in a developed economy with a sophisticated legal, accounting, regulatory and financial services infrastructure.

PAMP provides discretionary investment management and advisory services to five clients. As such, the firm operates in the financial service sector, building concentrated portfolios in developed markets, which are generally deep and liquid.

Identification of PAMPL's Key Internal Controls

- PAMP has a single clearly defined product (the Phoenix UK Fund) known to management. Daily fund information concerning the product performance and investment weights by client is produced at the close of business each day and reviewed.

- The Winterbotham Trust Company Limited (a licensed independent Bahamian regulated financial services group) act as the Fund administrators and custodians responsible for accounting and fund valuations for the Phoenix UK Fund. The fund board holds quarterly meetings, which are minuted. PAMP ensures segregation between the manager, administrator, custodians and bankers responsible for trading, pricing, accounting, settlement and reporting of the Phoenix UK Fund and other clients. Monthly third party reconciliation of securities and cash positions of the other clients are carried out with the relevant custodians, Northern Trust and State Street.

- Gary Channon, the investment manager, has extensive financial services and investment experience in senior executive positions at leading Banks. He is involved in the day to day management of the business and his personal wealth and reputation is at risk in the PUKF therefore aligning him with the success of PAMP. PAMP uses a number of brokers thereby diversifying exposures.

- Monthly management accounts and reporting packs are produced and reviewed at the monthly board meetings, which is chaired by the non-executive Chairman Sir Peter Thompson.

- PAMP has implemented a MiFID compliant conflict policy and has policies in place to identify and assess potential clients in line with FSA regulations.

- PAMP uses Clifford Chance in the UK and local legal counsel to mitigate its legal risks in both the UK and the Bahamas. PAMP also has Directors and Officers Liability insurance in place

- PAMP's IT risks are mitigated by the fact it has two sites, which replicate information.

Identification of PAMPL's Key Business Risks

The firm manages over £250m in assets and is fundamentally profitable at a management fee level without taking into account performance fees. Whilst a drop in assets of 25% would have a significant impact on revenues, PAMP would remain profitable. Staffing represents the significant majority of costs and, given the fact they include discretionary bonuses, could be reduced significantly if required. PAMP derives a high proportion of its management fees from a relatively small number of large clients. PAMP is open to competitive pressures and poor performance relative to peers may impact AUM directly. Liquidity with the funds managed by PAMP may be impacted by poor performance leading to redemptions.

PAMP faces routine legal risks associated with investment management in the UK and Bahamas, where the firm and PUKF fund are domiciled.

PAMP employs 4 FTEs plus a non-executive compliance director under a contract for services and all 5 perform a number of FSA approved functions. Given the small staffing levels the firm is vulnerable to staff loss but, like many similar smaller asset managers, it runs a significant key man risk because is places significant reliance on the fund manager's expertise.

Phoenix increases it regulatory risks if it fails to deal with its regulator in an open and co-operative manner and fails to report relevant information to its regulator (the FSA). Regulatory sanctions can lead to increased compliance costs and reputational damage.

PAMP relies on basic software packages such as Sage accounting and Microsoft office. IT servers are shared between the office and the CEO's place of residence. It is managed in-house with supplementary support from an external service provider

PAMP is 90% owned by Gary Channon.

Counterparty Risk.

PAMP's direct credit exposures will be limited to its main suppliers together with the fund's management and performance fee receivables. PAMP is indirectly exposed to PUKF, which is exposed to companies it invests in, its custodians, bankers and brokers.

Market Risk.

PAMP does not take market positions onto its balance sheet, but the PUKF invests in UK liquid stocks and has the ability to invest in a wide range of assets.

PAMP has low direct liquidity risks given its known income and expense base. It faces higher indirect risks through its investment advice and decisions in relation to its clients, the majority of which are currently in liquid stocks. However, as noted above, the wide scope of the PUKF's investment objectives potentially could increase a liquidity mismatch between Fund assets and liabilities.

Capital Resources

PAMPL's capital resources comprise core Tier 1 capital only and therefore there are no other items or deductions. The Tier 1 Capital resources at 31 March 2008 is £564,234

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), our capital requirement has been determined as being our fixed overhead requirement and not the sum of our credit risk capital requirement and our market risk capital requirement.

Compliance with rules in BIPRU and Pillar 2 rule requirements

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 1-year time horizon. Probability is assessed subjectively.

Our Pillar 2 requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as being less than our Pillar 1 capital requirement. Therefore, our Pillar 1 requirement is the minimum regulatory capital requirement that we will hold.

Credit and Market Risks

Disclosure in relation to these have been considered immaterial under BIPRU 11.35R (Exemption from disclosure: Materiality), as our capital requirement under GENPRU 2.1.45R (calculation of the variable capital requirement for a BIPRU firm), is our Fixed Overhead requirement rather than the sum of our credit risk capital and our market risk capital requirement. At 31 March 2008, our Fixed Overhead requirement is deemed to be £823,000.