

## PILLAR 3 REQUIREMENT

CCLA Investment Management Limited (CCLA) has addressed its obligation to complete, for 2010, an Internal Capital Adequacy Assessment (ICAAP) for the purposes of determining its Pillar 2 capital requirement under the Capital Requirements Directive (CRD). The contents follow FSA guidance for the preparation of an ICAAP document for smaller investment firms, and as a limited license company CCLA fall into the “simple” category for the ICAAP. All CCLA regulated activities are covered by the ICAAP.

This ICAAP shows CCLA’s Pillar 2 capital calculations and overall capital requirement based on an internal assessment of the risks facing the firm.

The ICAAP document was approved by the Executive Committee on 5 October for submission to the CCLA Board and was subsequently approved by the Board on 19 October 2010.

### Approach

The ICAAP is based on the outcome of our assessment of the most significant risks to the business, together with their possible impact on capital, after having considered all possible mitigating actions. These risks are identified by means of using the firm’s operational risk management framework, based on operational risk management principles of best practice within the investment management industry. The operational risk manager meets with all risk owners throughout the business at least three times a year to discuss and score both the risks and controls related to their business area. The results from the re-scoring process are updated on the firm’s operational risk management system, Enterprise Risk Assessor (ERA). From the risk categories, Prolonged Market Downturn – to included loss of deposit fund income, Operational Risk, Business Development Risk (Business Risk) and Regulatory Risk were selected.

These risks had a scenario determined for each of them and were stressed to the worse envisaged case for current and planned business activities, taking into consideration mitigating management actions, over a three year period.

### Findings

The conclusion from the exercise is that the Pillar 2 calculation is £3.6m and, as this exceeds the Pillar 1 requirement of £1.9m, it becomes the minimum capital required. A capital level of £3.6m is considered adequate to cover the scenarios tested, including where an aggregation and correlation of the risks might materialise.

At its year end CCLA had qualifying regulatory capital reserves of £14.7m which, after taking account of the higher Pillar 2 requirement of £3.6m, reduced to £11.1m. Within this amount it has sufficient liquidity / cash flow management, to ensure it can meet it’s liabilities as they fall due.

CCLA’s capital is split between different counterparties, the maturity of which should be no longer than 90 days.

The ICAAP is a forward looking report reviewing future envisaged risks.

As mentioned above, this information was approved by the Board of CCLA Investment Management Limited on 19 October 2010.