

King Sturge Financial Services Limited (KSFS)

Pillar 3 Disclosures

For the year ended 30 April 2010

The following report covers the period from 1 May 2009 through to 30 April 2010

1. Introduction

This report is made in accordance with the Capital Requirements Directive ("CRD"), which came into effect on 1 January 2007. CRD introduced consistent capital adequacy requirements for authorised credit institutions and investment firms across Europe. For UK firms, these rules are laid out in the FSA Handbook. The relevant section of the handbook is the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The capital adequacy framework as set out by the CRD consists of three "pillars" which are described in brief below:

Pillar 1 – means the firm's minimum capital adequacy standards which it adheres to.

Pillar 2 – means that the firm is required to undertake an internal capital adequacy assessment process ("ICAAP") in order to determine whether additional capital is required in relation to the risks KSFS faces.

Pillar 3 – means the disclosure requirements required by the CRD, applicable to KSFS.

KSFS applies this capital adequacy framework as part of its capital management process and submits to the Financial Services Authority Gabriel electronic disclosures on an annual basis. The KSFS Board, where appropriate has the mandate to make more frequent publications.

2. Background to the Firm and Scope of the Directive

KSFS is authorised and regulated by the UK Financial Services Authority ("FSA") for the conduct of investment business, Firm Reference Number is 1916105.

KSFS is an investment property adviser, and operator and manager of real estate funds.

For the purposes of the prudential requirements, KSFS is categorised as a BIPRU €50K Limited Licence firm.

3. Corporate Structure

KSFS is a subsidiary of King Sturge Holding Limited, and the ultimate parent undertaking is King Sturge International LLP. Copies of the Group financial statements of King Sturge International LLP are publicly available from Companies House, Crown Way, Cardiff.

KSFS makes these disclosures on a solo entity basis.

4. Capital resources

Capital adequacy is the degree to which the capital resources on KSFS's balance sheet are sufficient to cover its capital requirements, both now and in the foreseeable future. KSFS's authority to operate as an investment firm is dependant upon it maintaining

adequate capital resources. During the period 1ST May 2009 to 30th April 2010, KSFS complied with all the FSA capital requirements.

The table below shows the breakdown of the KSFS's total available capital as at 30th April 2010.

Capital resources	£ 000 as at 30 April 2010
Tier One capital	837
Share Capital	210
P&L reserves b/f	627
Deductions from Tier One Capital	
Dividends Paid	
Tier Two capital	
Deductions from Tier Two capital	
Total Tier One and Tier Two Capital	
Deductions from Tier One and Tier Two Capital	
Tier Three Capital	
Interim trading profits	135
Deductions from Tier Three Capital	
Total Capital Resources	972
Total Capital excess	716

5. Capital Adequacy - Compliance with BIPRU rules

KSFS has adopted the standardised approach to risk calculations.

Credit risk

Given the limited credit risk profile of KSFS's business, KSFS has adopted the standardised approach to Credit risk calculations and calculates 8% of the risk weighted exposure amounts. The Internal Ratings Based approach is not applicable.

Operational risk

In general, KSFS seeks to mitigate operational risk through the establishment and maintenance of effective systems and controls and by identifying, managing and mitigating key operational risks. Further details are provided in section 7, below.

Market risk

KSFS does not hold any positions (either trading book positions or foreign exchange/commodity positions) and therefore does not have any market risk capital requirement.

Concentration risk

KSFS does not have a trading book and therefore is not required to calculate a concentration risk capital component.

KSFS closely monitors its exposures to its counterparties with respect to Non-Trading Book exposures, to ensure that:

- i. no exposure to a single counterparty or group of connected counterparties exceeds 25% limit in relation to the firm's capital resources; and
- ii. total large exposures to all counterparties do not exceed more than 800% of the firm's capital resources.

Capital Adequacy Assessment

KSFS stress testing model provides an analysis of diverse range of scenarios measured over short and long term. On the basis of this risk assessment, KSFS satisfy's itself on a quarterly basis that it has enough capital to meet it's business plan and strategic objectives.

KSFS is required to carry out an ICAAP in order to ensure that the firm continually has enough minimum and, where necessary, additional capital in order to meet its regulatory capital requirements. The ICAAP is reviewed at least quarterly; the KSFS Board makes frequent assessments of capital adequacy (Pillar 1), on a quarterly basis also.

6. Risk Management Objectives and Policies

The assessment of risks and ongoing monitoring is performed and reviewed by the Compliance Officer, KSFS Board, and Finance department in proportion to KSFS business activities, size and nature of operations.

The KSFS Board meets quarterly, to discuss strategic and risk management objectives.

The categories of risk covered should include those items detailed in sections 7 to 13.

7 Operational risk

Operational risk is defined as the risk of loss to the firm resulting from inadequate or failed internal processes, people and systems, or from external events; it includes legal and financial crime risks, but does not include strategic, reputation and business risks.

In general, KSFS seeks to mitigate operational risk by implementing a strong control environment and managing risk proactively.

KSFS makes use of the shared resources available to it within the King Sturge group to identify, address and mitigate the operational risks that it faces.

The King Sturge LLP Legal & Compliance department tracks legal and regulatory changes and provides training, supervision and guidance to KSFS employees.

The King Sturge LLP IT department ensures that adequate controls are in place to protect the IT system such as firewalls, password protection and access hierarchies, regular file back-up and emergency remote access provisions.

The King Sturge LLP HR department monitors staff recruitment, development and training to minimise the risk of personnel issues arising. In conjunction with the Compliance department, HR ensure that staff are made aware of their duties and obligations in respect of anti-money laundering, insider trading and fraud, and the penalties that exist in the event of any breach. Should any operational losses occur, KSFS will consider the control failures that resulted in losses and where appropriate improving the control framework.

The KSFS Board believes that due to the effectiveness of the mitigations in place, the minimum Pillar 1 requirements are adequate to cover operational risk. No operational losses have been logged, should any occur, KSFS will consider the control failures that resulted in losses and where appropriate improving the control framework. KSFS does not consider it necessary to hold any additional capital in relation to operational risk.

8 Business risk

Business risk is defined as the risk to the firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

KSFS has several diverse strands of its business with distinct client bases and business cycles. Since KSFS is not dependent on one core business, KSFS' failure to develop or maintain one sector of the business can be mitigated by ongoing success in other parts of the business.

Furthermore, KSFS looks to mitigate its business risk by maintaining a high level of quality in the services provided, by closely monitoring developments in the markets in which it operates, and by actively pursuing opportunities for expansion and diversification of the business.

KSFS does not consider it necessary to hold any additional capital in relation to business risk.

9 Concentration risk

Concentration risk is the risk that a company is over-dependent on certain markets, business sectors or clients, and as a result would suffer disproportionately from the loss of the same.

KSFS has identified that it is potentially exposed to two sources of concentration risk.

The first is in relation to the risk of loss that can arise from an uneven distribution of exposures to its debtors.

The second is the risk of loss that can arise from an uneven reliance or dependence on particular customers or group of customers, sectors, regions, industries or products.

KSFS has a broad client base compared to the size of the business and does not have particular reliance on any one client or group of clients.

The KSFS Board does not consider it necessary to hold any additional capital in respect of concentration risks.

10 Credit risk

Credit risk is the risk that unexpected losses may arise as a result of KSFS's borrowers or market counterparties failing to meet their obligations to pay.

KSFS has a diverse client base and does not have a disproportionate reliance on any one client. The directors have not identified any existing clients which represent a significant credit risk, and new clients are subject to rigorous credit checks.

The KSFS Board has concluded that the 8% capital component calculated in accordance with Pillar 1 is sufficient, and does not consider it necessary to hold any additional capital in respect of credit risk.

11 Market risk

Market risk is the risk of any impact on the firm's financial condition due to adverse market movements caused by market variables such as interest rates, prices etc. On the basis that KSFS does not have permission to deal on its own account, KSFS considers that it does not have market risk of any significance.

The KSFS Board does not consider it necessary to hold any additional capital in respect of market risks.

12 Liquidity risk

Liquidity risk is the risk that KSFS will be unable to meet its financial obligations as they fall due as assets held cannot be realised.

New clients undergo rigorous credit checks before work commences. The King Sturge LLP credit control team actively manages outstanding debt positions with existing clients.

In the unlikely event KSFS requires additional liquidity to address a temporary shortfall; KSFS will make arrangements to enter into a short term loan arrangement with, King Sturge LLP, a member of King Sturge Group. The likelihood of this event occurring is remote for the following reasons:-

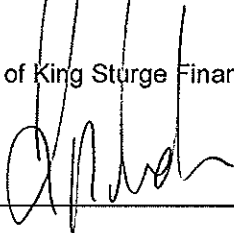
KSFS does not have a liquidity issue. KSFS does not rely on any one client for regulated work. KSFS provides a diverse range of services to a broad range of clients;

KSFS staff are consultants. All KSFS staff overheads are covered by, King Sturge LLP, a member of King Sturge Group.

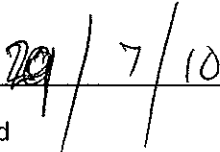
In terms of historical evaluation of KSFS clients' payment of fees, to date, KSFS has not had to charge late payment interest on any KSFS client fee. Should this situation ever change, any KSFS client defaulting on fees would be notified of the interest charges contained within the late payment of professional fees section of KSFS terms and conditions (as amended).

The KSFS Board does not consider it necessary to hold any additional capital in respect of liquidity risks beyond the cash already held under Pillar 1.

Director of King Sturge Financial Services Limited



Signed



Dated