

Dewhurst Torevell & Co Limited

Risk profile disclosure document – year ended 30 June 2011

Capital Resources Directive - Basel II Pillar 3 Disclosure

**Introduction**

Dewhurst Torevell & Co Limited (the firm) is classified as a Limited Licence €125,000 firm and, as such, is required to comply with the three Pillars of Basel II (the Capital Requirements Directive). The three Pillars that make up the Capital Requirements Directive are set out below.

<b>Capital Requirements Directive</b>		
<b>Pillar 1</b>	<b>Pillar 2</b>	<b>Pillar 3</b>
Minimum Capital Requirements	Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP)	Disclosure

This document is designed to satisfy the requirements of Pillar 3 by setting out the firm’s risk management objectives and policies.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements for investment firms and credit institutions that will allow other market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made public for the benefit of the market.

The firm does not use the IRB Approach when calculating its Credit Risk Capital Component. The firm is not subject to consolidated supervision.

**Risk Management Policies and Objectives**

The firm is a limited company wholly owned by its directors and senior management. The company is authorised and regulated by the Financial Services Authority (“FSA”) as Independent Financial Advisers. Our FSA Register number is 183210 and was established in March 1997, being regulated from the outset by the PIA. The company provides independent financial advice to high net worth individuals, trusts and small corporate bodies. It is authorised to handle client money and provide a safe custody service for client assets. Dewhurst Torevell does not carry out discretionary management; it operates on an active advisory basis. The company has a strong reputation in the market place for providing quality service and has a longstanding client base. Our permitted business is advising and arranging investment business, life insurance and pensions (including transfers and opt outs).

Where possible, the firm will attempt to manage all the risks that arise from its operations. As the firm is a Limited Licence €125,000 firm it is not usually exposed to Credit Risk, Market Risk (including interest rate risk) or Operational Risk. However, the firm has separately considered the risks associated with its business and these are detailed both in the ICAAP and later in this document.

The ways in which the firm manages the risks faced include producing key risk information and indicators to measure and monitor performance and using the Board of directors to monitor and control specific risks.

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### *Credit Risk*

The company has only incidental credit risk exposures and so has chosen to adopt the simplified standard approach when calculating the credit risk requirement. A single weight of 8% has been applied to all exposures in this class. From a practical perspective this is classed as prepayments plus trade debtors i.e. commissions due from life offices and investment houses and any fees outstanding.

Risks not applicable to the company

Market risk*	Operational risk
Liquidity risk	Insurance risk
Concentration risk	Residual risk
Securitisation risk	Business risk
Interest rate risk	Pension obligation risk

*\* The company holds fixed asset investments in five unit trust funds (Invesco Perpetual High Income, Neptune Income, Newton Global Higher Income, Schroder Income and M&G Optimal Income). These investments cost £50,000 in June 2002 with a further £150,000 invested in February 2009. At 30 June 2011 the holdings were valued at £269,563 (excluding dividends received over the period). The funds are used widely and so can be seen within the majority of client portfolios. The performance of the funds has been consistently good and the capital risk is considered to be low. It should be noted that if anything catastrophic were to happen to the funds then the implication on the business as a whole and the wider client base would be significant.*

### **Risk Management Function**

The directors take risk management seriously and have regular directors meetings when risk may be discussed. As the company is controlled by a small number of directors/senior managers, there is no need to have a separate risk committee. The risk aspect of any new business propositions will be considered at an appropriate stage. The monthly directors' business meeting includes a regular compliance agenda item and this addresses specific risk if necessary.

### **Risk Reporting and Management Systems**

There are a number of reports and processes that are employed by the firm to enable key risks to be identified, reported to appropriate personnel for consideration and, where required, action and managed. These include:

#### *Compliance Risk Assessment*

This is an assessment of all relevant risks that the firm is likely to face in the next twelve months and is performed on an annual basis to be effective at the start of the financial year. This element of the compliance plan is presented to the board for review and approval and is used as the basis for the firm's compliance monitoring for the following period.

#### *Compliance Resource Assessment*

This assessment determines the level of internal compliance resource required by the firm for the period covered by the compliance risk assessment and will identify shortfalls in resourcing that could lead to compliance weaknesses and breaches. This is performed bi-annually and is presented as part of the compliance officer's report to the board.

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*Money Laundering Risk Assessment*

A forward looking assessment of the risks the firm faces from money laundering and wider financial crime takes place as part of the MLRO bi-annual report. The MLRO will use this assessment to drive the necessary anti financial crime initiatives within the firm.

*Compliance Oversight Officer's Report*

A bi-annual consideration of the standard of the firm's compliance over the preceding half year. The report is presented to the board for consideration and action as necessary.

*MLRO Report*

A bi-annual consideration of the standard of the firm's anti money laundering and other financial crime practices over the preceding half year. The report is presented to the firm's board for consideration and action as necessary.

*TCF update review*

An annual update and assessment of the firm's TCF profile. The report is presented to the firm's board for consideration and action as necessary.

**Remuneration policy and practices**

No separate remuneration committee exists; this function is undertaken by the governing body of the firm. The firm is not considered to be large enough to warrant the establishment of such a committee. The firm does not retain the services of non-executive directors or external consultants.

*Remuneration policy*

This policy applies to executive directors and other senior managers with a material impact on the firm's risk profile ('Code Staff'):

The overall policy is that the remuneration of executive directors and other Code Staff should comply with the FSA's Remuneration Code, with an appropriate balance being struck between financial performance and risk management;

A material part of the remuneration of executive directors and other Code Staff is variable based on the firm's financial performance as a whole. In respect of Code Staff, it is also based on individual performance, using predetermined targets to motivate and reward success. In years where business performance does not merit the award of a bonus, no bonus is paid.

*Pay and performance*

The executive directors and other Code Staff receive bonuses which reflect the firm's overall net profitability. A similar approach is adopted for all other staff. The approach ensures that threshold conditions regarding sustainable levels of capital and liquidity are maintained.

There is no minimum amount of variable pay and the maximum amount in the 2011 year, as a percentage of basic salary, was 85% for executive directors and up to 13% for other Code Staff.

*Aggregate remuneration data:*

The total fixed pay to employees in the year ended 30 June 2011 was £1,567k, total undeferred variable pay was £1,508k.

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Details of remuneration paid to Directors/Code Staff are as follows:

	£'000
Fixed pay	221
Variable pay	1,371
Benefits	26
Pension	<u>335</u>
Total	1,953

#### Capital Resources

The firm's capital resources comprise entirely share capital and audited reserves.

#### Capital ratios

	30/06/2011	30/06/2010
<b>Tier 1</b>		
Share capital	102	102
Capital redemption reserve	38	38
Profit & loss account	735	402
<b>Core tier 1 capital</b>	<b>875</b>	<b>542</b>
<b>Tier 2</b>		
Revaluation reserve	37	11
<b>Total capital</b>	<b>912</b>	<b>553</b>
<b>Total assets</b>	<b>1,964</b>	<b>1,496</b>
<b>Risk weighted assets</b>	<b>1,964</b>	<b>1,496</b>
<b>Risk asset ratios</b>		
Core tier 1	<b>44.6%</b>	<b>36.2%</b>
Total capital	<b>46.4%</b>	<b>37.0%</b>

#### Integration into Business Strategy

It is the intention of the firm to maintain sufficient capital resources to allow it to continue to operate profitably in the independent financial advice sector and to provide a reasonable return for the shareholders of the firm. In order to maintain this capital the firm must generate and retain some profits that will add to the firm's financial reserves. This strategy has remained unchanged since the company was established in 1997.

**Internal Capital Adequacy Assessment Process (“ICAAP”)**

The ICAAP combines Pillar 1 and Pillar 2 requirements and involves a detailed analysis of the various elements of the business to understand the need for capital in the forthcoming period. Various models are tested in the process to identify areas where additional capital may be required to manage the risks to which the firm is exposed. It has been concluded that regulatory capital is an appropriate measure of the level of capital to be held within the business. The relative simplicity of the business means that the company does not need any additional capital to meet its objectives.

The result of the ICAAP is challenged by a party independent of the preparation of the ICAAP and this is ultimately reviewed and approved by the firm’s governing body to ensure that there is sufficient capital within the firm to meet our future plans and anticipated risks.