

CAPITAL REQUIREMENTS DIRECTIVE

Pillar 3 Disclosures

1. Purpose

City of London Investment Management Company Ltd (CoLIM) is authorised and regulated by the Financial Services Authority (FSA) to conduct investment business under the Financial Services and Markets Act 2000. Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) sets out to effect the EU Capital Requirements Directive (Pillar 3 Disclosures) and requires firms to make certain disclosures to market participants. CoLIM is a BIPRU firm as defined in the FSA's rulebook and this document is designed to meet our disclosure requirements.

2. Background

CoLIM is a wholly owned subsidiary of City of London Investment Group PLC (CoLIG) (which is listed on the Alternative Investment Market (AIM) in London) and is a limited liability company. CoLIM acts as manager/adviser to a number of commingled funds and segregated accounts. In all cases the client assets are held independently by custodians, appointed either by the account holder (for segregated accounts) or by the trustee (for the commingled funds) or in one case by the Board of the Open-Ended Investment Company (OIEC) (for the Dublin listed World Markets Umbrella Fund). CoLIM does not hold Clients' money or assets and does not have the relevant FSA permitted business to do so.

CoLIM exercises a conservative policy on payments; generally invoices are paid on receipt, with no advantage being taken of credit periods. There is thus no accumulation of obligations for future payment. CoLIM is cost-aware and, in accepting any new obligation, seeks to ensure an even spread of payments, where possible, so as to avoid peaks and troughs.

CoLIM is profitable and has a positive cash flow. As a matter of policy, CoLIM has no borrowings and is thus unaffected by interest rate changes. It neither trades on its own account nor underwrites transactions.

CoLIM holds regulatory capital in accordance with the Capital Requirements Directive and FSA Rules. All such capital is classified as Tier 1 and is therefore of the highest quality. CoLIM holds higher capital than required by its Pillar 1 requirements.

3. Risks

The simplicity of the business model (as briefly described above) means that CoLIM is not exposed to many of the risks that many financial services firms might face. CoLIM's risk management objective is to be as simple and risk averse as is practical. This is achieved by focusing on one line of business (the management of client money for a fee), avoiding as many potential conflicts of interest as possible, and by not holding any client assets.

Business interruption risks are managed proactively by an extensive backup network and offsite continuity services.

4. Inapplicable items

Due to the simplicity of its business model, many risk items covered by FSA Rules do not apply. In particular:-

1. CoLIM is not subject to the Banking Consolidation Directive;
2. Many credit book, trading book, foreign currency and operational risk requirements do not apply, but CoLIM does apply 8% risk weighted exposure amounts for certain routine debtors;
3. CoLIM does not have exposures to non-trading book equity exposure or non-trading book interest rate risk.

5. Recessionary risks

FSA guidance requires firms to stress test for the impact of recession, on the scale of severity of a recession that might be expected as infrequently as once in every twenty five years. Our stress testing has included significant distressed market conditions as well as significant client money withdrawals; and this has been reflected in our regulatory capital.

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