

Eden Group Limited

Group Pillar 3 Disclosures

October 2009

Introduction

Purpose of disclosures

This document sets out the Pillar 3 market disclosures for Eden Group Limited and subsidiaries (“Eden”), an authorised and regulated limited activity group in the UK.

In 2007 and 2008, the Financial Services Authority’s new General Prudential Sourcebook (“GENPRU”) and Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) rules came into effect, implementing the Capital Requirements Directive, which is the common framework for implementing Basel II in the European Union.

These rules are built on three pillars:

Pillar 1 Minimum capital requirements.

Pillar 2 Guidance for the setting of bespoke capital requirements by the firm’s senior management through the Internal Capital Adequacy Assessment Process (“ICAAP”) and subsequent Supervisory Review and Evaluation Process (“SREP”).

Pillar 3 Rules for the disclosure of risk and capital management, including capital adequacy.

The purpose of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm’s capital, risk exposures and risk assessment process. The disclosures are to be made public for the benefit of the market.

Frequency

Eden will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date which is 30 April.

Media and location

The disclosures will be published on the Eden website www.edenfinancial.com.

Layout of the document

The disclosures within the document have been set out in such a way as to correspond with the specific requirements set out in BIPRU 11.5. Disclosures exclude those matters that are not applicable or not material to Eden.

Background

This report has been prepared for Eden Group Limited and its subsidiaries which form a UK consolidated group.

The group comprises three regulated entities:

- Eden Financial Limited - BIPRU Euro 730k limited activity investment firm
- Eden Financial Advisers Limited – Exempt CAD firm
- EF Securities LLP – BIPRU Euro 50k limited licence firm

All the above entities are fully consolidated for accounting and prudential purposes.

The principal activities of the Group are wealth management and institutional equity broking. Equity broking is conducted either as riskless principal or on an agency basis.

Risk Management Objectives and Policies

Eden is committed to implementing a good practice firm-wide governance and risk management framework appropriate to the size, nature and complexity of the business. The Governing Body for the risk framework within Eden is the Board of Directors of Eden Financial Limited which has the responsibility for setting the risk appetite of the Group. The Board meets every six to eight weeks and is comprised of six executive directors and four non executive directors.

The Board has established a committee structure to identify and analyse key risks, set appropriate risk limits and monitor these risks and adherence to limits.

Capital Resources

	30 April 2009 £000's
Tier 1 capital*	13,074
Deductions from Tier 1 capital	(5,554)
Tier 2 capital	-
Deductions from Tier 2 capital	-
Tier 3 capital	-
Deductions from Tier 3 capital	-
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Total capital	7,520
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* includes audited profits for the year to April 2009

Deductions from Tier 1 capital are in respect of goodwill and non recourse loans to employees for the purchase of shares.

Assessment of Capital Adequacy

Based upon its regulatory permissions and scope of activities, Eden is subject to the capital requirements for a limited activity firm. Eden's Pillar 1 capital is based on the sum of the Fixed Overhead Requirement, Credit Risk Requirement, Counterparty Credit Risk and Market Risk Requirement.

	Calculation Method	Capital (£000's)
Credit Risk	Eden uses the simplified method of calculating risk weights. The capital requirement is calculated as 8% of the risk weighted exposure amounts as set out by the FSA.	572
Market Risk	Eden calculates its market risk capital requirement using the foreign currency position risk requirement method set out in the FSA rules.	29
Fixed Overhead Requirement (FOR)	The FOR is calculated as 13 weeks' fixed expenditure based on financial statements as at April 2009.	2,421

Assessment of Capital Adequacy *(continued)*

Eden complies with the Pillar 1 capital calculation requirements as follows:

BIPRU 3

For Eden's Pillar 1 regulatory capital calculation of Credit Risk the Group has adopted the Simplified method of calculating risk weights (BIPRU 3.5).

The following table analyses credit risk between exposure classes:

	Exposure	Average risk weight	Risk weighted exposure	Capital requirement
Central governments and central banks	2,002	0%	-	-
Financial Institutions	3,270	20%	654	52
Collective investment schemes – fair value	917	150%	1,375	110
Other items	5,136	100%	5,136	410

BIPRU 7

The Group has non trading book foreign exchange risk only and calculates the capital requirement in accordance with BIPRU 7.5. As at 30 April 2009 the capital requirement for foreign exchange risk was £28,000.

BIPRU 10

The Group closely monitors and assesses its Non-Trading Book limits in line with BIPRU 10.5.2R to BIPRU 10.5.10R.

Pillar 2 (ICAAP)

Eden's ICAAP assesses the amount of capital required to mitigate the risks to which Eden is exposed. The ICAAP considers the impacts of future business plans as well as potential adverse scenarios (such as market downturns or significant operational errors) on the capital resources of Eden, to ensure regulatory capital requirements are met at all times.

The firm's exposure to risk categories as defined by the FSA is shown below:-

Risk type	Treatment
Operational Risk	<p>Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The identification of operational risk within Eden is carried out as part of the process of compiling, updating and reviewing the Risk Register. The register incorporates a comprehensive description of the Group's operational risk.</p> <p>The regular review of the Risk Register and follow up of the action plans form a key aspect of the Group's ongoing assessment and mitigation of operational risk. This is the responsibility of the Risk Committee which formally reviews the register.</p> <p>The firm also has a programme of insurance designed to reduce its exposure to liability and to protect its assets.</p>

Assessment of Capital Adequacy *(continued)*

Pillar 2 (ICAAP) *(continued)*

Risk type	Treatment
<p>Market Risk</p>	<p>Market risk is defined as the risk of loss arising from fluctuations in values of, or income from, assets or arising from fluctuations in foreign exchange rates.</p> <p>The Group takes limited market risk in maximising the returns on its excess cash and capital. Outside of this practice, which is detailed further below, the Group has a very clear and unambiguous policy that it does not take proprietary positions. Market executions are always transacted to satisfy client orders or for the account of discretionary client portfolios. The Group's systems, controls and procedures highlight positions arising from errors and ensure they are closed out immediately.</p>
<p>Credit Risk</p>	<p>Credit risk is defined as the risk of loss caused by the failure of a counterparty to perform its contractual obligations.</p> <p>The Institutional Division's credit exposure is confined to that arising from unsettled cash against document transactions and unsettled invoices for commissions and fees. Clients are principally large investment banks, investment institutions and large hedge funds. The Wealth Management division does not provide credit facilities through margin trading accounts and its credit risk is limited to fees and commissions due from its Model B clearing agent Pershing. Credit risk arises from balances held at banks where the company applies a minimum credit rating of AA.</p> <p>A credit committee operates with a mandate to review and approve credit risk undertaken.</p>
<p>Business and Strategic Risk</p>	<p>Business risk is any risk to a firm arising from change in its business, including the risk that the firm may not be able to execute its business plan and its desired strategy. In a narrow sense, business risk is the risk a firm suffers losses because income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure spanning a wide range of macroeconomic, political, industry, regulatory, technological and other external risks that might deflect a firm from its desired strategy and business plan.</p> <p>Eden regularly considers risks which may threaten its business strategy and expected growth according to a range of assumptions as to the state of the economic or business environment which it faces and puts in place additional controls or other actions where it is deemed cost-effective to do so.</p>
<p>Liquidity Risk</p>	<p>Liquidity risk is defined as the risk that the firm, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.</p> <p>Eden maintains a surplus of liquid resources sufficient at all times to meet any immediate requirements it could prudently foresee. Liquidity is available in the form of committed bank facilities to cover security settlement timing differences and cash which is invested in short-term bank deposits or liquid securities to ensure that it is available as required.</p>
<p>Reputational Risk</p>	<p>Reputational risk is defined as the risk of damage to the firm's reputation that could lead to negative publicity, costly litigation, a decline in the customer base or the exit of key employees and therefore directly or indirectly resulting in a loss of revenue.</p> <p>The key to protecting the Group's reputation is the quality of its staff. Correspondingly appropriate policies on recruitment, training and performance assessment are maintained.</p> <p>Management also consider their commitment to the Treating Customers Fairly requirements and strict adherence to their Anti Money Laundering obligations as critical to maintaining reputation.</p>

Assessment of Capital Adequacy *(continued)*

Pillar 2 (ICAAP) (continued)

In addition, the firm has considered the effect of a significant drop in revenue caused by market conditions, staff or client losses and/or other reputational damage/loss and has assessed whether additional capital is required to withstand such a shock. Eden also calculates realistic wind-up costs and is comfortable that regulatory capital held would allow Eden to wind up in an orderly fashion.