



April 2010

Capital Requirements Directive

Pillar 3 Disclosure

Lombard Odier Darier Hentsch (UK) Limited

1. Background

The European Union's Capital Requirements Directive ("CRD"), effective from 1 January 2007, introduced a set of revised regulatory capital adequacy standards and associated supervisory framework across the European Union based on the Basel II Accord. The Basel II Accord comprises recommendations issued by the Basel Committee on Banking Supervision that aim to create an international standard that banking regulators can use for establishing how much capital banks need to put aside to guard against various financial and operational risks. The Financial Services Authority ("FSA") implemented the CRD in the United Kingdom.

The CRD uses the concept of three pillars that also form the basis of the Basel II Accord and extends the requirements to cover a wide range of financial institutions. These three pillars are also embedded in the FSA's rules that implement the CRD.

Pillar 1 specifies the minimum capital resources Lombard Odier Darier Hentsch (UK) Limited ("the firm") is required to hold. In the case of the firm this is the highest of Euro 125,000, the sum of its market and credit risk requirements and its Fixed Overhead Requirement ("FOR").

Pillar 2 sets out the review process to be used by the firm and the FSA to determine whether additional capital should be held against any risks not adequately covered by Pillar 1. Under Pillar 2 the firm is required to analyse a wide range of risks to its business and then consider whether the mitigation in place to address these risks is sufficient or whether additional capital in excess of that available under Pillar 1 is required to provide a buffer against specific risks. This procedure forms part of the firm's Internal Capital Adequacy Assessment Process ("ICAAP").

Pillar 3 requires the firm to develop a set of disclosure requirements which enable market participants to assess information on the risks facing the firm, its capital resources and risk management procedures.

2. Scope of Disclosure

The disclosures in this document are made in respect of Lombard Odier Darier Hentsch (UK) Limited, an investment management firm providing services to retail and professional clients. It is authorised and regulated by the Financial Services Authority and is categorised as a Limited Licence €125,000 firm. Its FSA Part IV permission allows it to safeguard client assets. The firm does not fall within the definition of a UK consolidation group and is thus not required to prepare disclosures on a consolidated basis.

3. Risk Management Objectives and Policies

The firm's approach to risk management is predicated on the need to manage the full range of risks facing the firm including credit, market, business, operational and liquidity risks, including those that may arise as a result of its association with affiliate companies in Switzerland and Gibraltar. The firm's overriding aim in this area is to minimise the risks to the firm's clients, its counterparties and other stakeholders, ensuring client assets are safeguarded and appropriately managed in full compliance with regulatory and legal requirements.

Operational Risk

In order to minimise the operational risk faced by the Firm in the conduct of its activities, various control measures are in place. The firm is part of a well established financial group that operates a stable platform and has evolved robust procedures and controls. The firm has a symbiotic relationship with the Group, reliant on infrastructure and compliant with the key organisational controls that feature segregation of duties, clear reporting lines and communication channels, qualitative and quantitative metrics for recruitment and management of staff and systems that capture management information to assist monitoring business activities.

The firm's risk management framework incorporates an analysis of the impact of each risk on the business, the probability of each risk occurring and the procedures in place in mitigation. This risk management framework is a core component of the firm's high level systems and controls arrangements and ensures all areas of the business are subject to oversight. The firm's ultimate ownership is held by eight partners of a private Swiss bank who bear unlimited liability for the business affairs of the bank. These partners are involved in the day to day activities of the Group and have established a governance structure that incorporates Compliance, Risk and Internal Audit functions. The firm has an established Compliance Officer and Risk Officer, responsible for oversight of the business, with independent functional reporting line within the Group.

Business Risk

The firm's main business risk relates to loss of clients arising from poor performance and services. This exposure is mitigated through diversification of the client base as well as adoption of independent oversight functions in respect of management and control of business activities and performance monitoring.

Liquidity Risk

The firm does not have a treasury management function and client assets are kept under a separate legal entity, ring fenced from the firm. There is therefore no liquidity mismatch.

Cash balances are held only at those banks with high credit ratings thus reducing credit risk. The current, and projected, availability and liquidity of financial resources are monitored and appropriate arrangements made to ensure the firm is sufficiently funded over the medium term. The relationships between the liquidity of financial resources, risk management and both short and long-term business strategies are taken into account in managing the business.

Credit Risk

Continual monitoring of market conditions and financial trends by the credit control team permits Group Finance to pre-empt potential stress scenarios and take necessary action in respect of counterparts used by the Group, including the firm. This provides an early warning indicator as to the potential for Group assets becoming encumbered. The Group provides its subsidiaries with relevant information for swift corrective action to avoid potential default from a counterparty.

Market Risk

The firm's market risk is limited to exposure to foreign exchange fluctuations, though there are no material foreign currencies maintained. Receipts in foreign currencies are promptly converted to the base currency, Sterling.

4. Capital Resources

Pillar 1

The firm's capital resources comprise its Tier 1 core capital and audited reserves. No Tier 2 or Tier 3 capital is held.

In accordance with the FSA's prudential rules, the firm's Pillar 1 (its variable capital requirement) has been determined as its fixed overhead requirement.

Pillar 2

Pillar 2 capital is the sum of the firm's Pillar 1 capital and any additional capital required to be maintained against risks not adequately covered under its Pillar 1 requirement. The firm's overall approach to assessing the adequacy of its internal capital is set out in its Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP involves consideration of a range of risks faced by the firm and determines the level of capital needed to cover these risks. The level of capital required by the firm to cover identified risks is a function of their impact and probability and risk mitigation controls in place. The firm believes it has taken a prudent approach to its Pillar 2 calculations and holds sufficient capital to meet its operational and other risk requirements. Stress and scenario tests performed as part of the ICAAP supported management's view that adequate additional capital is held by the firm under Pillar 2.