THE CHARTERED INSTITUTE OF LEGAL EXECUTIVES GROUP

RESERVES POLICY

Introduction

The CILEX Group has accumulated reserves since its formation as the Institute of Legal Executives. These reserves provide a measure of financial security and a source of investment for the Group.

The Group Board ('the Board') believes that it is prudent to maintain sufficient minimum reserves to enable the Group to meet unexpected fluctuations in business. The Board also wishes to ensure that funds are available for appropriate investment opportunities that benefit the Group and support its strategy.

This policy sets out guiding principles, including the process for Group companies to access reserves and the minimum level of reserves that should be held.

Guiding Principles

- The main assets of the Chartered Institute Group (property & value of investment portfolio) will be held and controlled by CILEX as the parent company (through the Board);
- The financial health of the Chartered Institute to be optimised by the distribution of profits from its subsidiary companies by way of an annual dividend.
- All companies within the CILEX Group have an equal right to apply for funds from the strategic reserve to support business development or strategic opportunities that are in the Group interest;
- Access to Group Reserves is by the approval of the Board.

Types of Reserve

- There shall be three types of reserves:
    - A central **Contingency Reserve** equal to the total value of between 3 and 6 months of operating costs for each of the companies that make up the CILEX Group must be maintained to meet unexpected fluctuations in business;
    - A central **Strategic Reserve** equal to the amount of cash and investments held that are in excess of the Contingency Reserve. This is held to fund business development activities and investment opportunities;
    - **Local Working Capital Reserves** which are required to enable each operating company to maintain sufficient cash to meet its working capital requirements, equal to 2 months of operating costs. This working capital reserve will be held and controlled locally within each company.

Maintenance of Reserve Levels

- Central Reserve levels will be maintained through the payment of dividends by those operating companies of the CILEX Group which are permitted to distribute their profits (excludes CILEx Regulation Limited).
- Operating companies are required to pay an annual dividend to CILEX from distributable profits when cash reserves held exceed the required level of working capital reserve, noting the particular not-for-profit status of CILEx Regulation Limited.
- The Group Board may also require operating companies to pay an interim dividend if cash reserves are materially in excess of the minimum requirements established as required working capital.
- The payment of dividends is subject to the Group Dividend Policy.

Process of Application for Funds from Strategic Investment Reserve

- Applications for access to strategic reserve funds must be supported by a business case in accordance with Group strategic priorities.
- The business case must be in the format prescribed by, and meet the criteria required by the Finance Committee (FC).
- FC will make a recommendation to the Group Board as to whether the business case is in the overall Group interest, considering the potential impact on each of the operating companies within the Group.
- The Group Board's decision is final*****.

***** This policy acknowledges the protocols setting out the working relationships between the Chartered Institute of Legal Executives and CILEx Regulation Ltd and the provision for resolving differences contained in paragraph 31.

Investments in Financial Assets or Products

The CILEX Group has invested some of its cash in investment portfolios under professional investment management. These and all future investments will be subject to the Group Investment Policy.

The Reserves Policy must operate in accordance with the Group Investment Policy

Additional Responsibilities of the Finance and General Purposes Committee

- FC is responsible for any clarification or guidance regarding the interpretation of this policy.
- FC will review and approve the Group Reserves Policy annually.
- FC will endeavour to consider a business case that is submitted to it as quickly as possible, where it is time critical.

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Definitions:

FC is responsible for the interpretation and calculation of all parts and definitions in this Policy:

Total Group reserves: cash and cash equivalents together with those amounts invested in financial assets or products held by the Group.

Contingency Reserve: reserve held for the purposes of ensuring companies within the CILEX Group have access to protected funds to cover operating expenditure commitments. Equal to 3 to 6 months of operating costs for each of the companies that make up the CILEX Group.

Strategic Reserve: reserve available to fund business development activities and investment opportunities. Equal to the amount of cash and investments held in excess of the Contingency Reserve.

Local Working Capital Reserve: cash reserve held locally within each operating company. Equal to 2 months operating costs.

Operating costs: the total of direct expenditure, staff costs, premises & administration expenditure, group services charges and MIS expenditure.