
BACKGROUND

Arden Partners plc (“Arden”) is authorised and regulated by the Financial Services Authority (“FSA”). The FSA is responsible for the implementation in the UK of the EU Capital Requirements Directive, which sets the regulatory capital framework for the financial services industry in Europe. The CRD framework consists of three pillars:

- **Pillar 1** sets out the minimum capital requirements firms are required to meet for credit, market and operational risk.
- **Pillar 2** requires the firm to assess whether any additional capital should be maintained against risks not covered under Pillar 1.
- **Pillar 3** requires firms to publish certain details of their risks, capital and risk management.

The FSA rules governing Pillar 3 disclosures provide that the firm may choose not to disclose information which is not material. The firm may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted (BIPRU 11.3.7).

BUSINESS STRUCTURE

Arden is incorporated in England & Wales as a Public Limited Company. Arden Partners plc is the only operating company in the group and consequently reports to the FSA on a solo-consolidated basis.

RISK MANAGEMENT

The Board of Arden has established a framework for the management of risk within the firm and has overall responsibility over systems and controls and for reviewing their effectiveness. The Board reviews financial performance, monitors regulatory compliance and monitors key performance indicators.

The Group is managed by an Operations Committee which has responsibility for implementation of strategy and monitoring progress of delivery against key objectives. The Committee also reviews financial performance against budgets and key performance indicators. This Committee is chaired by Steve Wassell in his role as Chief Operating Officer and has both Jonathan Keeling and Trevor Norris as permanent members. Other members of staff, including the Director of Compliance, are co-opted as required.

Risk

The Risk Committee is chaired by the Group Finance Director and has both the Chief Operating Officer and the Director of Compliance as permanent members. This Committee is charged with monitoring risk exposures including those which arise through trading and holding financial instruments, regulatory and compliance, capital adequacy and financial reporting risk.

Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance “Internal Control: Guidance for Directors on the Combined Code”. This has been in place throughout the year and up to the date of approval of the Financial Statements. The process is regularly reviewed by the Board.

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Financial instruments and risk profile

The Group and Company's financial instruments comprise cash and cash equivalents, trading positions, available for sale investments, trade receivables and trade payables arising from operations. The Group and Company have recognised the following risks arising from these financial instruments:

- Equity price risk
- Credit risk
- Liquidity risk
- Operational risk

Equity price risk

The Group and Company face risk arising from holding trading investments in markets that fluctuate. The Group and Company manage equity price risk by establishing individual stock limits and overall investment criteria, and management reports are prepared daily in support of a review regime. The Board reviews trading investments on a monthly basis.

Liquidity risk

Liquidity risk is the risk that the Group and Company are unable to raise sufficient funding to enable them to meet their obligations and is managed as follows:

- maintaining a strong capital base
- forecasting future cash-flow requirements
- monitoring of cash positions on a daily basis
- monitoring of market making positions on a daily basis
- control over timely settlement of trade receivables
- control over timely settlement of market debtors and creditors

Capital management

The Group and Company's policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. During the years ended 31 October 2009 and 2010 capital has been maintained at a level above minimum FSA requirements. Such levels have been established by reference to an internal ICAAP assessment. The Group and Company's capital resources consist of Tier 1 equity capital and Tier 3 retained earnings.

The Group and Company hold their cash with a number of reputable financial institutions. All cash and cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash.

Credit risk

Credit risk represents the possibility that the Group or Company will suffer a loss from a counterparty failing to meet its obligations. Credit risk is managed as follows:

- robust client account opening and vetting procedures
 - general policy to deal only with FSA registered counterparties
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- general policy on limiting exposure to concentration risk
- control over timely settlement of market receivables
- review of daily settlement reports by the Risk Committee

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, staff or systems, or from external causes whether deliberate, accidental or natural. This would also include risk from changes in legislation, regulation, currency or interest rate risk.

Arden has chosen to use the basic indicator approach for operational risk in accordance with BIPRU 6.3, thus requiring capital equal to 15% of the three-year average of the firm's net income.

ASSESSMENT OF THE ADEQUACY OF CAPITAL

CAPITAL RESOURCES

As at 30 April 2011 the main constituents of capital resources of Arden comprise:

Tier 1 Capital:	£'m
Issued and called up share capital	2.7
Share Premium	2.9
Revenue Reserves	7.2
Tier 1 Capital	12.8
Deductions against Tier 1 Capital	1.9
Tier 1 Capital after deductions	10.9

CAPITAL REQUIREMENT

As at 30 April 2011, the firm's Pillar 1 capital requirement was £2.9m. This has been determined by reference to the sum of the firm's credit risk, market risk and operational risk requirements, which exceed the firm's base capital requirement of €730,000.

SATISFACTION OF CAPITAL REQUIREMENTS

The firm's approach to assessing the adequacy of its internal capital to support its current and future activities is documented in its Internal Capital Adequacy Assessment Process ("ICAAP"), which includes an assessment of each of the risks faced by the firm and the internal controls in place to mitigate those risks. This is then stress-tested against various scenarios. The ICAAP is carried out annually with a formal review after six months. However Arden has adopted an integrated approach whereby ICAAP KPI's are reforecast on a monthly basis following completion of monthly management accounts.