

Arden Partners plc PILLAR 3 Disclosures

As at 31 March 2009

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 day-to-day business is managed by the Chief Executive Officer in conjunction with Heads of Department together forming an Operations Board. The Operations Board also serves as the Operational Risk Committee (“ORC”) and is charged with monitoring the various risk exposures including those which arise through trading and holding financial instruments.

In response to difficult market conditions and the heightened threat of counterparty failure, the ORC formed a Risk Committee tasked specifically with monitoring market conditions and the potential impact on the business. **This committee receives key reports on a daily basis and meets weekly for discussion.**

Financial Instruments and risk profile

The following is an extract from Arden’s Annual Report 2008:

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
- Liquidity risk
- Credit risk
- Operational risk

Equity price risk

The Group and Company face risk arising from holding available for sale investments and market making positions 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 available for sale 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
- control over timely settlement of trade debtors
- 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 2007 and 2008 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
- general policy on limiting exposure to concentration risk
- control over timely settlement of market debtors
- 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.

Operational risk is managed by an Operations Board with day-to-day control exercised by the Operations Director. The Group and Company also has in place contingency plans to cover loss of systems, property and other eventualities and has in place Professional Indemnity and Directors and Officers Liability insurance policies.

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 31 October 2008 the main constituents of capital resources of Arden comprise:

Tier 1 Capital:	£'000
Issued and called up share capital	2,470
Share Premium	2,646
Audited Reserves	5,966
	<u>11,082</u>

CAPITAL REQUIREMENT

As at 31 October 2008, the firm's Pillar 1 capital requirement was £2,804,000. 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.