

BACKGROUND

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

Arden is authorised and regulated by the Financial Conduct Authority (“FCA”). The FCA is responsible for the implementation in the UK of the EU Capital Requirements Directive (“CRD”), 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 Arden is required to meet for credit, market and operational risk.
- Pillar 2 requires Arden to assess whether any additional capital should be maintained against risks not covered under Pillar 1.
- Pillar 3 requires Arden to publish certain details of its risks, capital and risk management.

The FCA rules governing Pillar 3 disclosures provide that Arden may choose not to disclose information which is not material. Arden may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted.

ASSESSMENT OF THE ADEQUACY OF CAPITAL

Capital Requirement (Pillar’s 1 & 2)

Arden’s base capital requirement is €730,000. Arden has determined as at 31 October 2019, by reference to the sum of its concentration risk, credit risk, market risk and operational risk requirements, that additional capital of £2.2m is required.

Capital Resources

As at 31 October 2019 the main constituents of the capital resources of Arden comprise:

Tier 1 Capital:	£’m
Issued and called up share capital	3.3
Capital Redemption Reserve	0.7
Share Premium	6.7
Revenue Reserves	<u>(2.3)</u>
Tier 1 Capital	8.4
Deductions against Tier 1 Capital	<u>(2.7)</u>
Tier 1 Capital after deductions	<u>5.7</u>

Satisfaction of Capital Requirements

Arden'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 although Arden has adopted an integrated approach whereby ICAAP KPI's are reforecast on a monthly basis following completion of monthly management accounts.

Capital Management

Arden's policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence by maintaining capital at a level above minimum FCA requirements. Such levels have been established by reference to an internal ICAAP assessment. Arden's capital resources consist of Tier 1 equity capital and Tier 3 retained earnings.

Arden holds its cash with a number of reputable financial institutions. All cash and cash equivalents are short-term, liquid investments that are convertible into known amounts of cash.

RISK MANAGEMENT (Pillar 3)

The Board of Arden has established a framework for the management of risk within Arden 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.

Internal Control

The Board ensures that there is an ongoing process for identifying, evaluating and managing the significant risks faced by Arden, 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 Arden's system of internal control and for reviewing its effectiveness. Such a system however, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Operational and Risk Oversight

The Operations and Risk Committee is responsible for the implementation of strategy and for monitoring progress of delivery of key objectives. The Committee is also charged with monitoring risk exposures including those which arise through trading and holding financial instruments, corporate finance business, regulatory and compliance, capital adequacy and financial reporting risk. This Committee also has responsibility for monitoring the Group's internal control environment. Finally, the Committee reviews financial performance against budgets and key performance indicators.

The Operations and Risk Committee, which comprises the Chief Executive Officer, the Executive Director, Group Finance Director, Compliance and the departmental heads, is chaired by the Head of Equities.

FINANCIAL INSTRUMENTS AND RISK PROFILE

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

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

Equity price risk

Arden faces risk arising from holding trading investments in markets that fluctuate. Arden manages 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 Arden is unable to raise sufficient funding to enable it to meet its 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

Credit risk

Credit risk represents the possibility that Arden 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 on limiting exposure to concentration risk
- control over timely settlement of market receivables
- review of daily settlement reports by the Group Finance Director

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, thus requiring capital equal to 15% of the three-year average of the firm's net income.

REMUNERATION

Arden is classified as a level 3 firm for proportionality within the Remuneration Code; the following disclosures reflect the requirement for such level 3 firms.

Remuneration Committee

The Remuneration Committee, which comprises the Non-Executive Directors, is chaired by a senior Non-Executive Director and has responsibility for determining remuneration of Executive Directors and senior members of staff. This Committee makes decisions in consultation with the Chief Executive Officer and no Director plays a part in any decision about their own remuneration. This Committee also reviews bonus and equity arrangements for the Group's senior employees and additionally has responsibility for supervising the Arden Partners Share Option Scheme and the award of options under its terms.

Link between pay and performance

Fixed remuneration comprises principally base salary, and the Remuneration Committee reviews this as part of their annual review taking into account the performance of the individual and comparisons within the industry.

Variable remuneration is linked to business performance, individual achievements and is rewarded via discretionary bonus. The bonus pool set by Remuneration committee with reference to firm's performance, capital requirements and projected outlook.

Code Staff

This totalled eleven people at the year end. The information included in this disclosure relates to the fifteen staff identified as Code Staff employed during the financial year.

Aggregate Quantitative information

For the year ending 31 October 2019, aggregate remuneration expenditure in respect of Code Staff was as follows:

- Fixed remuneration £1,592,000
 - Variable remuneration £62,000
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