

Panmure Gordon & Co

Pillar 3 Disclosures

Updated for the period to 31st December 2009

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1. Introduction

The Basel II Capital Accord

The new Basel Accord has been implemented in the European Union via the Capital Requirements Directive (“CRD”). This Basel II Capital Accord is built around three central elements or “pillars”.

Capital Requirements Directive

- **Pillar 1- Minimum Capital Requirements:**
Pillar 1 lays down the minimum capital requirements firms are required to hold for the purposes of meeting market, credit and operational risk requirements.
- **Pillar 2 - Supervisory Review Process:**
Under Pillar 2, firms and regulators evaluate whether firms are holding sufficient capital to cover specific risks that are not fully captured under Pillar 1. The main principal of Pillar 2 is that firms should have a process in place for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. The details of this assessment and its findings are contained in the Panmure Gordon “Internal Capital Adequacy Assessment Process” (“ICAAP”) Document, elements of which are disclosed within this document as prescribed under Pillar 3.
- **Pillar 3 – Market Discipline:**
Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Pillar 3 encourages market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information for example capital, risk exposures and risk assessment processes in order to evaluate the institution and its capital adequacy.

Frequency

Unless otherwise stated, all figures within this document are current to 31st December 2009. Following the completion of the external audit, the figures will be updated to reflect those reported in the year-end published accounts.

Pillar 3 disclosures will be published on an annual basis. Additional disclosures will be made should the firm’s Operational Risk Committee deem it necessary as a result of any material change to the Company’s scale of operations, range of activities or the Board is otherwise of the opinion that the impact of events requires disclosure, in accordance with the provisions of section 11 of the “BIPRU”.

Report Location

This report will be published under the “Investor Relations” section of the Panmure Gordon & Co website (www.panmure.com).

Verification

This disclosure document has been prepared by Panmure Gordon (UK) Ltd in accordance with the requirements of Pillar 3 as set out under section 11 of the “Prudential sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU”). This document and the disclosures made herein are not subject to external audit, and may not be based upon audited financial data, but have been reviewed by senior management.

2. Corporate Background

The Panmure Gordon Group provides sales and trading to institutional investors, produces research on a wide range of companies and makes markets in UK and US stocks.

The shares of Panmure Gordon & Co. plc are traded on the AIM market operated by the London Stock Exchange.

Panmure Gordon & Co. plc is incorporated in England & Wales, company no: 2700769, and is a holding company of Panmure Gordon (UK).

The group's operations span the UK, US and Europe, including its US business, ThinkEquity Partners, and its European business, Quaker Securities (which is a representative office of Panmure Gordon (UK) Ltd), based in Nyon, Switzerland. ThinkEquity is a US-registered entity.

The company currently has 146,857,183 ordinary 4p shares in issue, of which 3,353,865 shares are held in treasury. 57% of the company's shares (including the shares held in treasury) are not in public hands. Approximately 8.8m shares have been issued to US individuals and as a result have restrictions on their transfer, since the company's shares are not registered under the US Securities Act of 1933 or any US state securities laws

Investment Banking

The Panmure Gordon Group investment banking teams provide clients with high quality independent advice and access to the trans-Atlantic market place. The investment banking team primarily focuses on raising finance for and providing corporate broking services to a range of companies, the majority of whom are listed in either the UK or the US. At the core of the investment banking activities is a deep commitment to putting our clients first and developing long-term relationships.

The company is a sponsor on the UKLA and is an AIM nominated adviser ("NOMAD"). Panmure Gordon has a number of retained clients for whom we act as nominated adviser and/or broker.

Integral to our investment banking services, Panmure Gordon has a long-established and dedicated corporate broking team that has developed a reputation for providing our clients with excellent market intelligence, feedback and awareness of all capital market activities

Institutional Sales and Trading

The Panmure Gordon sales team is highly respected and very experienced across a range of different investment classes providing dedicated sales coverage to:

- UK long only funds
- Hedge funds
- Private client wealth management funds
- Principal investors in UK listed companies
- US and European funds.

Panmure Gordon's depth of knowledge and contacts has always been fundamental to client success. The sales trading team is one of the most experienced among the City brokers. Backed by excellent relationships with central dealing desks, Panmure Gordon actively deal for c.750 institutions across the UK, US and Europe

The firm's UK activities are complemented by services provided by ThinkEquity Partners in the US who employ strong sales, sales trading and Trader teams.

Market making

Making markets in over 240 companies and investment companies in the UK and over 360 in the US, Panmure Gordon is one of the leading providers of liquidity to small and mid cap companies.

Panmure Gordon is also a retail service provider to over 60 private client brokers. Maintaining a strong market position in the UK, Panmure Gordon holds a leading market share in most of the corporate stocks and many non-corporate client stocks.

Equity Research

Panmure Gordon UK covers more than 453 stocks across 12 sectors. Idea-driven and consensus-challenging research is produced by a team of around 25 respected independent analysts who identify and respond rapidly to emerging trends in order to provide clients with value-added information.

In the US, ThinkEquity Partners specialises in providing research on the growth of the economy. The firm covers 169 stocks across 6 main sectors and employs approximately 22 senior analysts.

3. Risk Management Policies

The management team at Panmure Gordon is committed to ensuring robust, comprehensive procedures and controls throughout the business. In the interests of corporate governance best practice, the Audit Committee and the Board of Directors have overall responsibility for the Company's system of internal controls. Since the publication of the Turnbull Report, 'Internal Control: Guidance for Directors on the UK Combined Code', the Audit Committee and the Board of Directors have continued to review the effectiveness of controls the group has in place, risk management and the group's overall high-level internal control structure.

Panmure Gordon's organisational structure was created to ensure maximum control of all its activities. Senior management maintains a close "hands on" approach to all aspects of the business on a day-to-day basis. Each core area of the business, Corporate Finance, Institutional Equities and Operations, has its own functional committee meetings and the managing directors from all areas of the business also attend the Managing Directors Meeting.

The Company has two committees dedicated to monitoring and developing risk management policies throughout the group. The Risk Committee meets twice a month and focuses on market and financial risks and the Operational Risk Committee meets weekly, focusing on any operational risks faced by the group. The minutes of the Management and Risk Committees are reviewed at each meeting of the Board of Directors.

The Managing Directors Meeting is chaired by the CEO and meets fortnightly. This meeting is the principal forum for reviewing the business of the Company, and takes day-to-day responsibility for the efficient running of the business. The members are responsible for the formulation and implementation of Board strategy.

4. Capital Resources

Panmure Gordon calculates and reports its capital resources and capital requirements for the UK regulated entity to the FSA in accordance with current FSA regulations. Whilst Panmure Gordon is not required to report, to the FSA, a consolidated calculation of capital resources and capital requirements for the entire group, a consolidated group calculation is performed, for the purposes of management reporting, in line with current FSA rules. The following table presents a summary of both capital resources and the capital requirements for the entire group as at 31st December 2009.

	Actual as at 31st December 2009 All figures in GBP'000
Tier 1 capital (after deductions)	46,159
Tier 2 capital	700
Tier 3 capital	(6,977)
Total capital after deductions	39,882
Operational risk requirement	(9,720)
Credit risk requirement	(1,470)
Market risk requirement	(1,892)
Counterparty risk requirement	(8)
Total variable capital requirement	(13,090)
Surplus Capital (Pillar 1)	26,792
Additional Pillar 2 requirements	(151)
Surplus Capital (Pillar 2)	26,641

Tier 1 Capital composition:

• Permanent share capital	5,874
• Unissued share capital	298
• Bought forward retained earnings and other reserves	10,802
• Share premium account	35,881
• Shares held in treasury	(5,187)

Tier 2 Capital composition:

There are no elements included within Upper Tier 2 Capital. A subordinated loan which totals £700k is included within Lower Tier 2 Capital. In accordance with GENPRU 2, this is less than 50% of Tier 1 Capital.

Tier 3 Capital composition:

Losses of (£6,977)

5. Operational Risk

Operational risk – The Standardised Approach

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. Operational risk is not just limited to the processes relating to the group’s business activities but is inherent in all of the group’s activities by virtue of the fact that the group is a business – because it is an employer and it occupies (and is responsible for) property along with its contents including (but not limited to) assets and information not only belonging to the group but to our clients.

The Operational Risk Committee (comprised of senior management from all operational business areas) meets regularly to discuss current issues and to pre-empt future risks that arise as the Groups business grows. The committee is also responsible for updating and reviewing the risk framework in which all conceived risk events, ranging from everyday reconciliation problems to potentially severe events such as fraud, are recorded and scored depending on their likely frequency of occurrence and potential impact on the business. Also contained within the risk framework are details of mitigation strategies and controls in place around each of the recorded risks. The committee recognises that not all risks can be eliminated (errors and accidents will always occur) and that even if they can be, it is not always cost effective to do so.

Where risks are judged to be severe, the group concentrates primarily on putting stringent controls and mitigation strategies in place to reduce to a minimum their likely impact and magnitude. Severe events include those that are reasonably foreseeable and those that, while not predictable, are thought to be reasonably possible. For lower-level risks, the group concentrates on management and monitoring.

Under Pillar 1 Panmure Gordon (UK) has adopted the “Basic Indicator” approach to operational risk whereby the amount of capital we are required to hold for the purposes of operational risk is based on a fixed percentage of the previous three years audited income.

Regulation

The Panmure Gordon (UK) compliance department keeps up-to-date with any external developments through FSA guidance notes, external courses and participation in industry forums. Changes to regulation and market structure are fully reviewed prior to becoming operational to ensure the implications are fully understood.

Panmure Gordon (UK) is authorised and regulated by the Financial Services Authority (“the FSA”). It is the responsibility of both compliance and the finance team to ensure that all regulatory returns are submitted to the FSA in a timely manner.

ThinkEquity is authorised and regulated by the Securities Exchange Commission (“the SEC”). It is the responsibility of both US compliance and the US finance team to ensure that all regulatory returns are submitted to the SEC in a timely manner.

Business continuity

“Business Continuity Risk is the risk of loss arising from the interruption of systems, processes or the unavailability of office space preventing the Company from carrying out normal operating activities.”
In accordance with the provisions outlined in the “Senior Management Arrangements, Systems and Controls” (“SYSC”) The FSA requires that Panmure Gordon (UK) Ltd implements and maintains an up-to-date Business Continuity Plan to ensure that in the case of an interruption to systems and procedures:

- Losses are limited,
- Essential data is preserved
- Regulated activities continue where possible.

The core IT systems can be accessed in the Liverpool Office as well as the dedicated disaster recovery site in Southwark operated by Sentronex.

Panmure Gordon has a detailed Business Continuity Plan which has been tested by each department and the results and findings fully documented. A full end-to-end test was carried out in December 2009 and further partial tests have been completed in 2010.

Technology

Failure of IT strategy or implementation would have an adverse impact on the business. Overall responsibility for the day-to-day running of IT infrastructure rests with the head of operations and any issues are discussed in detail in the weekly Operations meeting. The Operational Risk Committee has the responsibility of reviewing all IT Risks with the objective to:

- provide an interface between the IT department and other business departments;
- ensure effective communication when developing IT strategy;
- monitor the Company's increasing investment in IT capital expenditure; and
- ensure the IT department is adequately resourced to help develop business strategy.

Fraud

This is the risk that client or company assets may be misappropriated, either from internal or external sources, and result in financial, regulatory and reputational issues. Procedures are designed to ensure appropriate segregation of duties and limitation of financial exposures in all areas. In addition to management review, internal and external auditors also review such controls and highlight any potential weaknesses. IT systems and strong reconciliation procedures are also used to prevent and detect instances of fraud.

IT systems are password protected with administration access confined to a small number of staff. Data is secured by technical solutions and network segregation. The Human Resource department carries out background checks on all new staff. All of these safeguards are subject to review by the group's external auditors. External penetration tests are also conducted by consultants to provide additional assurances on system security.

Outsourcing and other key suppliers

Outsource risk is the risk resulting from the dependence on third-party suppliers of key activities. The group has a number of outsource contracts as defined by SYSC 8.1.1 upon which it relies for the successful day to day running of the firm. Senior management monitor the contractual service level agreements closely and where the service fails to meet the agreed standard or when the service is no longer suitable for the business, they are changed. The group also has a number of other key suppliers. Relationships with these key suppliers are managed by nominated senior staff within the organisation.

Securitisation risk

The Company has not securitised any assets to date and has no current plans to do so.

6. Credit Risk

Credit risk represents the possibility the group will suffer a financial loss arising from a counterparty or client failing to meet its contractual obligations.

Credit risk arises principally from the Company's trading activities. Unsettled on and off exchange transactions with clients and market counterparties are included in the overall market debtors and creditors balances. The Company follows the provisions of BIPRU 14 regarding the capital requirements for unsettled transactions. Counterparty credit risk is managed in a number of ways, namely:

- client account opening procedures which include approval of all clients by management and compliance
- general policy of dealing principally with counterparties and clients authorised by the FSA (or equivalent overseas regulators) or listed on a recognised investment exchange
- the production and distribution of counterparty exposures ensuring senior management are aware of the counterparties the risk exposure primarily resides.

Given that all trades are settled on a delivery versus payment basis and the vast majority of counterparties are financial institutions, the risk of non settlement of trades has historically not been considered to be high enough to warrant the establishment and monitoring of individual credit limits. Although in the current economic climate Panmure Gordon faces an increased risk from counterparty failure, given the delivery versus payment / financial institution nature of our trades, careful monitoring and oversight is regarded as preferential to more restrictive approaches, such as assigning individual credit limits. There is a risk of non-payment of retainers by corporate clients; again this is considered a low risk as the amounts involved are relatively small and overdue amounts are actively pursued.

Panmure Gordon (UK) has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 standardised credit risk of the FSA handbook. The Company applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. External credit rating agencies ("ECAI") have not been used due to the relatively simple nature of the Company's activities and as such the firm is obliged to use a risk weight of 100% to all non trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

The Company takes a prudent approach to overdue receivables, and undertakes periodic impairment reviews with department heads. Specific provisions are applied in instances where management believe an asset is impaired.

Panmure Gordon Group - credit exposures and corresponding capital resource requirements as at 31st December 2009:

Asset	Value	Charge	Counterparty weight	Requirement
Cash and cash equivalents	39,235	8%	20%	628
LCH margin	319	8%	100%	26
Trade Receivables	2,959	8%	100%	237
Other Receivables	4,759	8%	100%	381
Prepayments & accrued income	1,300	8%	100%	104
Property, plant & equipment	2,536	8%	100%	203
Total	51,108			1,579

7. Market Risk

Market risk is the risk that changes in market prices such as equity prices, interest rates and exchange rates will affect the group and Company's income or the value of its holdings in financial instruments. The group and Company manages these risks within acceptable parameters, while optimising the return on risk. Market risk is monitored by means of:

Single stock limits are calculated by applying an agreed set of formulas to a set of risk metrics derived from the average traded volume, historical returns and market capitalisation of the specific stock. The trading system holds the market value of each trading position along with the holding value limit attributed to it. An embedded alarm within the trading system visually alerts management when the value of the individual trading positions breaches 90% of the calculated limit. The calculated limits are updated periodically to reflect changes in the risk metrics used to calculate the limits. All limit breaches are presented to and reviewed by the Risk and Compliance Committee for discussion.

Position Risk Requirement (PRR)

Under BIPRU 7, Panmure Gordon (UK) is principally exposed to both Equity PRR and Foreign Currency PRR and as such calculates and allocates sufficient capital in accordance with the requirements contained within BIPRU 7.

Under the provisions of BIPRU 7.3 and BIPRU 7.7, the Company calculates a capital requirement of 12% on listed equity instruments and 32% on all instruments classified as Collective Investment Undertakings. As at 31st December 2009 Panmure Gordon had an Equity PRR of £1,470k.

To highlight and limit the effect of market risk on the equity instruments held Panmure Gordon (UK) also uses a proprietary valuation model (Value at Risk, or "VAR") to calculate potential losses. To arrive at this figure the VAR looks at the current composition and value of equity instruments held for trading and then interprets the likelihood and value of potential losses based on recent market conditions and volatility. The resulting figure, presented to management on a daily basis and reviewed by the Risk Committee every two weeks, reflects an indicative valuation of the Company's market risk exposure attributable to uncharacteristic period returns. The Risk Committee has established an acceptable level of maximum net long position, currently agreed to be no greater than 25% of cash plus market debtors plus long positions and no greater than 50% of the excess of Financial Resources over Capital Requirement.

The Company's reporting currency is GBP. Daily the balance sheet exposure to foreign currencies is reviewed and mitigating action is taken to reduce these exposures as soon as practically possible. The Company's exposure to foreign currencies and corresponding capital requirement (as per the provisions of BIPRU 7.5) at the 31st December 2009 were:

Currency	Exposure (£'000s)	Currency PRR (£'000s)
Other	1,175	94
USD	4,113	329

8. Concentration Risk

Concentration risk is the risk to the Company arising from a lack of diversification within the business. The Company recognises the importance of managing its concentration in its trading book as well as ensuring well diversified revenue streams.

Panmure Gordon (UK) recognises the risk involved in holding stock trading positions which are not proportionate to the gross value of the trading book. Panmure Gordon has the below strategies in place to monitor the risk of concentration of positions within the trading book.

- Management information showing the largest trading assets and liabilities by value,
- Daily VAR analysis showing the potential loss exposure to the firm,
- Active management participation in reviewing trading exposures
- Stock limits and breach signals

Senior management continually review the trading book assets, and have in place appropriate mitigation strategies to ensure the firm is not exposed unduly to single asset concentration. As per the provisions of BIPRU 10 Panmure Gordon has no large exposure to be reported to the FSA.

Panmure Gordon (UK) principally operates over two distinct revenue generating segments namely Investment Banking and Institutional Sales and Trading. Management regularly reviews the revenue generated, both by business segments and by market sector in order to ensure adequate resource allocation across the segments with a view to ensuring forecasted revenue remains on target. The group's geographical diversity also helps to mitigate concentration risk.