



Liberum Capital Limited Pillar 3 Disclosures

1. OVERVIEW

Background

The Basel II accord has been implemented in the European Union ("EU") through the Capital Requirement Directive ("CRD"). The CRD details the standard regulatory capital framework for the financial services industry within the EU.

The Financial Services Authority ("FSA") holds responsibility for the implementation of the CRD in the UK and has done so through changes in its Handbook of Rules and Guidelines namely the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment firms ("BIPRU").

The new framework consists of three 'pillars':

- Pillar 1 specifies the minimum capital requirement of firms to cover credit, market and operational risk;
- Pillar 2 requires firms to assess the need to hold additional capital to cover risks not covered under Pillar 1; and
- Pillar 3 requires a set of disclosures to be made which enable market participants to assess information on firms' capital, risk exposure and risk management procedures.

Basis and Frequency of Disclosure

This document has been prepared by Liberum Capital Limited ("LCL" or the "Company"), on an individual, un-consolidated basis under the BIPRU 8 Rules of the FSA and in accordance with the minimum disclosure (Pillar 3) requirements set out under BIPRU 11 of the FSA Handbook.

Future disclosures will be on an annual basis and published as soon as practicable after completion of the annual financial statements, unless circumstances warrant update on a more frequent basis.

Scope

The Company is incorporated and operates in the UK and is an independent investment bank operating within the securities and corporate finance sectors. Within securities the Company provides research, sales and execution in large cap European equities, small to mid cap European equities and closed-ended investment funds listed on the main market of the London Stock Exchange or traded on the alternative investment market. It also provides market making services to small to mid cap companies and closed-ended investment funds. In addition, the Company provides sales, trading and execution services in convertible bonds. Within corporate finance, the Company provides corporate finance and advisory services to small to mid cap public and private companies and closed-ended investment funds. As of July 2011, the Company extended its regulatory permissions to include the provision of investment management services. In addition, the Company provides services to its wholly owned subsidiary, Liberum Capital Inc. ("LCI" and together with LCL, the "Group").

As of the date of this disclosure statement, LCL is categorised as a BIPRU € 730K full scope firm by the FSA. LCL has a wholly owned subsidiary, LCI registered in the State of New York, U.S.A. and regulated by FINRA. These are the same entities that are consolidated in LCL's 2010 Annual Report and Financial Statements. However LCI is deducted as a material holding in LCL's capital adequacy calculation and the monthly FSA003 return is filed on a solo, un-consolidated basis.

Location and Verification

These Pillar 3 disclosures are published on the Company's website www.liberumcapital.com. The disclosures are reviewed on an annual basis and are not subject to audit.

2. RISK MANAGEMENT

Introduction

The Group's income is derived largely through securities income and corporate finance activities. Common to other investment banking companies, our business activities expose the Group to a number of financial risks. These include credit, market, interest rates, liquidity and operational associated risks.

The monitoring and controlling of risk is a fundamental part of the management process. During the year the board of directors of the Company (the "Board") in conjunction with the risk and regulatory committee (the "Risk & Regulatory Committee") reviewed the key risks facing the Group and the controls that had been put in place to mitigate them. All risks are monitored by the Board, the Risk & Regulatory Committee and senior management in a timely manner through a sequence of financial reports using pre-defined and approved guidelines. The evaluation of these risks and the setting of policies in order to control them is the ultimate responsibility of the Board.

The acceptance of new business is subject to the following review process. Corporate Finance transactions are subject to a thorough due diligence process and require the Board's approval prior to engagement. New institutional trading counterparts are subject to a thorough legal, regulatory and anti-money laundering review prior to commencement of trading. Senior management review all new institutional accounts.

The comprehensive controls and governance structures established by the Board are considered appropriate to the size, nature and complexity of LCL's activities.

The Company has developed a suitable risk assessment methodology and process which continues to evolve alongside its risk management strategy, policy and appetite.

Coverage of Risks

LCL has mainly low risk activities and an uncomplicated operational structure. The Company has considered each of the risk categories identified within GENPRU 1.2.30 and other risks identified by the Board. Operational and business risks has been assessed as the core risks to the Company's business and have been evaluated on the "basic indicator" approach as specified in BIPRU 6.2 regulations.

The Board is responsible for identifying and controlling risks and is ultimately responsible for the overall risk management approach within the Group. The Risk & Regulatory Committee maintains oversight of the Company's systems of internal controls and monitors their effectiveness. The Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and have remained unchanged during the period under review.

Excessive risk concentration

Concentration indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Group has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

Credit risk

The Group has exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk exposure is generated primarily from the settlement risk on equities and fixed income. This is principally the risk that a counterparty fails to settle a trade thereby forcing the Group to close out the trade at a possible loss. It is important to note that the potential loss is not the value of the trade, but the difference between the prices at which the trade was executed and the current price. This is termed the mark-to-market value. The Group is also exposed to credit risk on outstanding receivables; exposure to this risk is managed by taking into account financial position, past experience and other factors for customers. The Group is subject to credit risk with respect to its cash at bank and in hand, trade debtors and loans.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure to counterparties plus cash balances with its clearers and banks. Therefore, the maximum exposure to credit risk for the Group at the balance sheet date was £45,944,000 (2009: £29,000,000) The Company's trading activity is primarily carried out on a matched principal basis with settlement on a delivery vs payment basis. Counterparty creditor balances at 31 December 2010 were £33,278,000 (2009: £14,090,000).

Liquidity risk

The Group's exposure to liquidity arises from the equity and fixed income trading activities within the business and the settlement of trades within this business. The risk is short term in nature.

Liquidity risk management within the Group considers both the overall balance sheet structure and projected daily liquidity requirements, measuring the combined effect of asset and liability maturity mismatches and other contingent obligations. The Group manages its cash and borrowing requirements across its clearing and banking relationships in aggregate and enjoys a good level of liquidity within its balance sheet.

The Company has undertaken a thorough and proportionate exercise of identifying the key liquidity risks that it is exposed to. BIPRU 12.5 sets out the ten key liquidity risk drivers that companies must consider. Given the size, nature and complexity of LCL business there is relatively limited relevance and applicability of these to the Company. Importantly LCL:

- Does not raise funding via wholesale markets in any way;
- Does not take deposits or rely on other forms of retail funding;

- Other than its small US subsidiary, the Company is not part of a larger group and not reliant on intra-group funding;
- Its securities trading activity is primarily on a matched trade basis with overnight position taking tightly controlled;
- Does provide for long settlement for a proportion of trading and this is tightly controlled in accordance with internal limits;
- The Company maintains a relatively modest market making book of a number of small and mid-cap listed companies; and
- LCL has no off-balance sheet items.

Market risk

Market risk is defined as the potential adverse change in a company's income or company's net worth arising from movements in interest rates, exchange rates, tax rates, inflation rate or other market prices / indices.

The Group's activities are directly linked to the stock markets and therefore all market prices / indices that influence the stock markets form the market risk to which the Group is exposed. To mitigate and manage the market risk, the Group has established a trading framework which does not permit overnight position holding except under exceptional circumstances or as part of its proprietary trading activities. This framework sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. As per Group policy, all trade book investments and assets available for sale are marked to market on a daily basis while the non-trade book investments are deducted as material holding for capital adequacy calculations.

The Group's activities are primarily denominated in Sterling. The Group does not enter into forward exchange contracts for hedging anticipated transactions.

Market risk – foreign currency risk

Foreign currency exposure is measured daily by taking into consideration all non-sterling assets and liabilities. This exposure position, broken down by individual foreign currency, is then circulated to senior managers with an overall summary position.

Market risk – interest rate risk

The Group has interest bearing assets in mainly cash and cash equivalents. The Company has a subordinated loan liability that is also interest bearing at a rate of 1% above LIBOR. By maintaining excess funds in cash and short term deposits the Group is exposed to short term interest rate risk. The value of such cash and cash equivalents at 31 December 2010 was £8,461,000 (2009: £11,784,000).

Market risk – equity price risk

The Group is exposed to equity market risk in respect of its equity holdings. These comprise of: (i) available-for-sale financial assets; (ii) trading assets and liabilities that result from proprietary trading; and (iii) derivatives received in lieu of corporate finance revenue. A sensitivity analysis has been performed on the Group's exposure to equity risk. The analysis is based on the assumption that underlying equity prices had an increase/decrease of 10% with all other variables held constant at the year end. The results as outlined below are only representative of the impact that is observed at the year end, and not of the impact that was observed during the year, which occurs due to a varying

portfolio throughout the year.

i) Available-for-sale financial assets

The Board continues to review the performance of existing available-for-sale financial assets in the Group's portfolio and realises these investments when deemed appropriate.

ii) Trading assets and liabilities that result from market making

Trading assets and liabilities are subject to Board approved book and position limits. These limits are monitored daily via an automated system and all breaches are monitored and resolved on a timely basis by senior management.

iii) Derivatives

Derivatives consist of options and warrants received in lieu of corporate finance fees. Management of market risk in respect of derivatives is through active involvement of senior management under the supervision of the Board.

Operational Risk Control

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events.

The Group recognises that operational risk can never be eliminated, but seeks to minimise the probability and impact of operational risk events.

The Board acknowledges that failure to adopt an appropriate business strategy or insufficient consideration of the recessionary economical conditions may pose a critical risk to the Company. In order to ensure that the entity is able to trade during severe recessionary environment the Company is very highly capitalised and holds capital resources significantly in excess of the regulatory capital resource requirement.

Major sources of operational risk include outsourcing of operations and dependence on key suppliers. The risk here is minimal as all key suppliers are either supplier to most other similar businesses and to use them is normal market practice, or can be easily replaced by competitors at a nominal cost.

In addition, due consideration has been given to other potential operational risk, namely human resources, operations, internal control, IT security, internal and external fraud, implementation of strategic change, regulatory non-compliance and external threats.

LCL manages this risk through appropriate controls and loss mitigation actions, including (but not limited to) insurance. These actions include a range of policies, appropriate procedures and internal controls to ensure compliance with laws and regulations. In addition, specialist support functions provide expertise in operational risk areas such as information security, health and safety, compliance, fraud management, security and business continuity management.

A process is in place for the recognition, capture, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. The operational risk requirement as at 31st December 2010 under Pillar 1 was £4,297,000.

The operational risk policy that has been implemented incorporates three key processes:

- A risk and control assessment carried out by the Board through discussion with senior management and recommendations from the Risk & Regulatory Committee. The assessment scores risk events as

to probability and impact as well as evaluating the design and performance of controls that have been put in place to mitigate the risk. The results of this assessment form the basis of the key risks database;

- Monitoring of the key risks by the Board and the Risk & Regulatory Committee and
- Establishment of an operational loss database to capture and analyse risk incidents and loss events.

The Group also undertake yearly appraisals for all employees as well as completing an independent employment screening of all new employees.

Insurance Risk

Insurance Risk is the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

LCL is not in the insurance writing business and impact of this risk is the policy excess under its own existing insurance arrangements.

The Company has taken out appropriate insurance cover in respect of legal action against its directors and officers. In addition to insurance cover for directors' and officers' liability, the Company has arranged Group wide insurance cover in respect of professional indemnity and corporate crime, employers' liability, and public and products liability.

Capital Risk Management

Group manages capital on the basis of regulatory capital requirement in accordance with Pillar 1 and Pillar 2 which is unchanged from 2009. The Group determines its regulatory capital, including subordinated debt, to be the main measure in its capital management monitoring and control.

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the rules implemented by the FSA, for supervisory purposes. Compliance with FSA regulatory requirements was maintained throughout the year.

The Group has an Internal Capital Adequacy Assessment Process (the "ICAAP"), which it uses to manage regulatory capital. This ICAAP takes into account the risk profile and future plans of the business. Under this process the Group is satisfied that there is either sufficient capital to absorb potential losses or that there are mitigating controls in place to prevent the risks occurring.

The Board receives commentary on required and available capital as part of a monthly risk report which is produced in conjunction with other management information. The commentary highlights any changes to Pillar 1 or 2 numbers and also any expected impact from the anticipated business initiatives.

On 31 December 2010, the Group had £11,583,000 (2009: £8,695,000) of regulatory capital resource, which is comfortably in excess of its regulatory capital requirement. Management consider that the Group has more than sufficient capital for its size and complexity taking into account all material risks faced in carrying out the Group's activities.

Where significant business initiatives are planned, the effects on the risk profile of the Group and therefore its capital requirement are considered as part of the business plan.

3. CAPITAL RESOURCES

LCL holds regulatory capital in accordance with the CRD.

Capital Resources of the Company as at 31 December 2010 (figures in £ '000)

Equity Capital	1,081
Non-redeemable, non-cumulative Preference Capital	5,637
Accumulated Reserves	4,508
Tier 1 capital	11,227
Revaluation reserve	98
Long term subordinated Loan	1,025
Tier 2 capital	1,123
Material Holdings	(1,810)
Deduction from Tier 1 and 2	(1,810)
Total capital resources	11,583
Capital Requirement (under standardised approach)	
Operational risk requirement	4,297
Credit risk requirement	349
Counterparty risk capital component	394
Market risk requirement	
- Equity PRR	972
- Foreign currency PRR	102
Total capital requirement	6,114
Solvency ratio	189%

Approach to ICAAP

Methodology

In order to consider the capital implications of a number of risks occurring simultaneously, over a specific time horizon and with a defined confidence level, an appropriately simple additive approach has been applied, and the results of this approach have been used as the basis for this ICAAP.

Time horizon

The ICAAP requires LCL to assess the level of capital required to ensure survival to a given confidence level over a stated time horizon. Although LCL recognises the FSA guidance in BIPRU 2.2.40 with regard to financial projections over a three to five year time horizon, the management of LCL believe that such a time horizon would be inappropriate given the nature of its activities and variability within its revenue streams.

Approach

Operational, credit and market risks are quantified in aggregate according to rules set out in the BIPRU section of the FSA Handbook. These are referred to in BIPRU as Pillar 1 risks. Since they are dealt with in aggregate by BIPRU, Pillar 1 risks are not individually quantified as part of LCL's ICAAP.

Risks which lie outside Pillar 1 scope (i.e. those other than operational, credit and market risks) must be individually quantified. These risks are known as Pillar 2 risks. The FSA considers LCL's quantification of Pillar 2 risks under its Supervision, Review and Evaluation process ("SREP").

The impact of any Pillar 2 risk is quantified in financial terms. In order to do this, extreme, but plausible scenarios are considered. In addition a generic stress model, such as a one in 25 year economic downturn, is created. The Pillar 2 risks and thus more extreme stress have been fed through LCL's one year financial projections to determine the impact on LCL's capital position.

Risk Assessment

LCL has supplemented the risk management process defined above to meet the needs of the ICAAP. A process has been built to identify which risks are relevant for the ICAAP, and protocols have been defined and developed to enable appropriate quantification of these risks.

Identification of material ICAAP risks

LCL's embedded risk management framework identifies and reports material risks each quarter. These are captured in the risk register and associated Board report. This information provided the starting point for the identification of ICAAP risks.

Each of the risks chosen for inclusion in the ICAAP analysis was reviewed to determine which fall within the definition of Pillar 1 risks (market, credit or operational Risk), and which should be defined as non-Pillar 1 risks.

The risk register has been reviewed to determine which risks should be included in the ICAAP calculation. The method used to determine which were included in the calculation is firstly to consider the materiality of the risk, secondly to consider whether they are provided for fully or partially by the Pillar One capital amount and thirdly to consider the appropriateness of capital as a strategy for the treatment of the risks.

Scenario risk analysis: ICAAP pillar 2 risks

LCL has considered four specific risk scenarios which would have a significant impact upon revenue. The scenarios are based on an adverse yet plausible real-world combination of events which would affect the key business areas such as revenue and economic capital.

Since LCL has not suffered a significant adverse financial impact from the recent economic downturn, the scenarios have been determined by analysing specific events which could give rise to extreme but plausible losses.

LCL has predicted the impact on revenue and cost streams as well as capital resources under these scenarios in order to assess whether a material net loss arises which might result in a call on capital.

Risk Descriptions

Concentration risk is confined to LCL's exposures to counterparties/clients and is classed as a Pillar 2 risk as per BIPRU 10.10.8R. LCL believes that no additional capital should be held to mitigate this risk due to its minimal financial impact.

Group risk arises from LCL's subsidiary LCI with recognised losses being accounted for in the consolidated financial statements. Intra-group exposures are classed as a Pillar 2 risk as per BIPRU 3.2.20 R. LCL believes that no additional capital should be held to mitigate this risk due to its minimal financial impact.

Control risk is identified as a relevant risk due to failure of internal controls as a result of lack of governance within LCL's management structure. Control risk is classed as a Pillar 2 risk as per BIPRU 2.2.71. LCL believes that no additional capital should be held to mitigate this risk due to its minimal financial impact.

Strategic risk is the risk of failure of the business to execute its business strategy resulting in an inability to achieve the projected returns (new business initiatives and market competition). LCL believes that no additional capital should be held to mitigate this risk due to its minimal financial impact.

Liquidity risks are LCL's inability to meet its liabilities as they fall due. Liquidity risk is classed as a Pillar 2 risk as per BIPRU 12. LCL's Internal Liquidity Adequacy Assessment ("ILAA") document demonstrates that LCL operates with a highly liquid/marketable assets base. LCL believes that no additional capital should be held to mitigate this risk due to its minimal financial impact.

Aggregation & diversification of risks

The overall level of capital that is appropriate for LCL's business is derived from its Pillar 1 calculations. Pillar 2 assessment, scenarios based financial projections and capital stress tests.

The key elements considered in risk assessments are based on LCL's operational capacity under the turbulent market conditions.

LCL regulatory capital model is a subset of its internal capital model which demonstrates its ability to operate within the regulatory framework.

Conclusion

LCL therefore believes that, as a result of the analysis set out above, no additional capital is required over a one year time horizon.

4. REMUNERATION

Scope

LCL is subject to the provisions of the FSA's Remuneration Code SYSC 19A outlined in Policy Statement 10/20 (the "Remuneration Code" or "Code"). LCL is required to establish and apply policies to comply with the Code in a way and to the extent that it is appropriate to its size, internal organisation and the nature, scope and the complexity of its activities.

Decision making process

LCL has put in place policies, procedures and practices relating to remuneration which, to the extent required, apply the principles of the FSA's Remuneration Code SYSC 19A outlined in Policy Statement 10/20 (the "Remuneration Code" or "Code").

LCL has identified two key participants in monitoring and implementing its risk and regulatory framework and its governance of risk: the board of directors (the "Board") and the risk & regulatory committee (the "Risk & Regulatory Committee"). The Board is collectively responsible for the long term success of the Company. The Board sets the Company's strategic aims, within a framework of risk management and internal controls, ensuring that the necessary financial and human resources are in place to enable the Company to meet its objectives.

The Risk & Regulatory Committee is responsible for the oversight of risk and resulting risk management activity and is responsible for facilitating the risk management process and ensuring that appropriate risk management activities take place.

Although the Company may dis-apply the requirement to establish a remuneration committee, the Board of LCL has introduced such a committee to which it has delegated authority to approve the remuneration packages of individual members of the Board (the "Remuneration Committee"), which also extends to other Code Staff (as defined in the Code), this ensures that no individual within the Company will approve his/her own remuneration package.

The Remuneration Committee approves the remuneration packages of Code Staff based on each individual's performance in the widest sense considering financial, non financial and risk based factors and independent of the performance of individual business units, in line with the bonus methodology.

The Remuneration Committee will undertake periodic reviews to oversee the application of the Company's remuneration policy throughout the Company to ensure that it aligns with all provisions of the Code. Members of the Remuneration Committee will receive full briefings regarding the implications of the Code and the criteria and implications of designating Code Staff from the Risk & Regulatory Committee, to ensure that remuneration decisions throughout the Company are made in accordance with the Policy and aligned with the Code.

The Remuneration Committee in conjunction with the Risk & Regulatory Committee will undertake a review of the Company's remuneration policy on at least an annual basis.

Remuneration and performance

Sound and effective risk management contributes to the overall success of the Company. All individuals are rewarded from the combined bonus pool for the Company based on their contribution to the profitability of the Company in the widest sense and not for excessive risk taking. No individual or team are rewarded on a formula basis or any alternative methodology.

Summary of strategy and application of Code principles

- The Company's strategy is to employ a critical mass of high quality individuals across all areas of the business, therefore the Company's remuneration policy must be sufficient in order to attract, retain and incentivise those members of staff. The annual salary cap and discretionary and non contractual nature of bonus payments allows the Board and the Remuneration Committee the flexibility to incentivise and reward those individuals who have contributed fully to the success of Company in the short term. The long term nature of the Company Share Schemes (including the Growth Share Plan) promotes incentivisation in the long term success of the Company. The communication of the business planning process and periodic performance assessment and reviews provide an opportunity for individuals to be set realistic targets and objectives for the short and long term horizons which are in line with the overall business strategy and objectives set by the Board.
- As identified in the risk register, senior management in conjunction with the Risk & Regulatory Committee monitor LCL'S activities to ensure that all potential and actual conflicts of interest are managed and enforce the provisions contained within the Company's published Conflicts of Interest policy in order to prevent conflicts of interest arising between any "relevant person" and a client. Relevant persons include but are not limited to all staff including Code Staff.
- As part of the Company's overall business planning process, the Risk & Regulatory Committee in conjunction with the Remuneration Committee and senior management will review the remuneration policy and report to the Board on at least an annual basis to ensure that it continues to be effective in promoting sound and effective risk management, remains in line with the Company's overall strategy set by the Board and is compliant with the Company's regulatory obligations, which will then be challenged, approved and implemented by the Board.
- When proposing and approving the bonus pool the Board (which includes members of the Risk & Regulatory Committee) will collectively perform a risk adjusted performance assessment which will consider both financial and non financial performance measurements, current and future risks and the ICAAP.

Quantitative Disclosures

Total Remuneration* for the year ended 31 December 2010 (figures in £ '000)

Liberum Capital Limited	23,467
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Total Remuneration* of Code Staff** for the year ended 31 December 2010 (figures in £ '000)

Fixed Remuneration	1,290
Variable Remuneration	2,082
Total Remuneration	3,372
 Number of beneficiaries	 9

* Wages & Salaries

** Senior management & members of staff whose actions have a material impact on the risk profile of the Company



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