

PILLAR 3: DECEMBER 2009

1. Westhouse Securities Limited (“WS”) Pillar 3 disclosures

This document constitutes the disclosure required in BIPRU 11.3.1R.

Disclosure made as part of Westhouse Holdings plc (“WH”) compliance with AIM Rule 26 is not repeated here.

2. Background

WS is an FSA regulated UK registered company categorised as a BIPRU 50k limited licence firm. It is not authorised either to hold client funds nor to deal on own account.

WS is the wholly owned subsidiary of WH which is quoted on AIM, Jersey registered, has no business other than as a holding company and is not FSA regulated.

WS does not have an Investment Firm Consolidation waiver.

3. Risk management objectives and policies

WS policy is a) to minimise both the likelihood and impact of any risk as far as reasonably practicable; and b) to ensure that it has the capital (and other, where appropriate) resources to withstand risks as they occur.

The risk management responsibility rests with the WS board which meets monthly to discuss the business including risk. WS board employs a) executives who as part of executive their duties implement the risk policy; and b) outside consultants as required. The firm is not large enough to warrant a separate risk management function.

WS’s board responsibility is a) regularly to identify and assess both likelihood and impact of risks to WS; b) develop and implement strategies to minimise the likelihood and impact of those risks; and c) monitor the effectiveness of those strategies.

To fulfil its responsibility, WS’s board’s strategy is to use all the tools available to it as the board of the company (‘Management Tools’), including management structures and reporting lines, staff selection and training, insurance, client and counterparty selection, business flow and detailed monitoring.

Credit risk

Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed. All invoices are payable immediately on presentation. To manage this risk WS periodically assesses the financial reliability of customers, taking into account the financial position, past experience and other factors.

The Group's cash deposits are held within a number of accounts at NatWest Bank plc. As part of the Group's risk management the board reviews the concentration of risk that this gives rise to, assessing inter alia the standing of that bank and the commercial costs or benefits of diversifying that risk.

Liquidity risk

Liquidity risk is defined as the risk that the Group would not be able to settle or meet its obligations on time or at a reasonable price. Liquidity and funding risks, related processes and policies are overseen by management and are managed on a consolidated basis based on business needs, tax, capital or regulatory considerations, through various sources of finance in order to maintain flexibility. Management monitors the Group's net liquidity position through rolling forecasts on the basis of expected cash flows. The Group's cash and cash equivalents are held with major regulated financial institutions.

Market risk

The Group has no Trading Book and so has limited exposure to those areas of market risks, but is subject to risks primarily related to interest rates, foreign currency exchange movements and the market value of the investments, and these are actively monitored. The market value of the investments has been subject to variations of up to 50% and while such variations could recur they will not be material to the Group's business.

Interest rate risk

It is the Group's policy and practice to minimise interest rate cash flow exposures on long-term financing.

Foreign currency exchange risk

The directors have reviewed the Group's foreign currency exchange risk and deems there to be an insignificant risk associated with exchange movements on foreign currencies.

Operational Risk

The Group defines 'operational risk' as the risk of loss resulting from inadequate or failed internal processes, people, and systems 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 Operational Risk policy incorporates three key processes: First, a risk and control assessment carried out by

the Board through discussion. Second an assessment to score risk events as to both probability and impact together with an evaluation of the design and performance of controls that have been put in place to mitigate the risk. Third the monitoring of key risk indicators by the Board who will also analyse risk incidents and loss events.

4. Scope of application of directive requirements

WS is the firm subject to disclosures. For accounting but not prudential purposes WS is consolidated with WH and an intermediate holding company Westhouse Group Ltd ('WGL'). WH and WGL are investment holding companies whose investment is the shares in its subsidiary. For prudential purposes WS is assessed as a stand-alone entity with WH and WGL being neither consolidated nor deducted

There is no current or foreseen material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among the WH and WGL and WS.

5. Capital Resources

Schedule 1 sets out WS's capital resources calculation based on its latest published numbers, including the risk weighted exposure amounts.

6. Compliance with BIPRU3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the overall Pillar 2 rule

Set out below is WS's assessment of compliance. Refer also to section 12 below.

7. BIPRU 3 (Standardised credit risk)

In calculating Credit Risk, WS has adopted the Standardised Approach and the Simplified Method of calculating risk weights.

8. BIPRU 4 (The IRB approach)

WS does not adopt the Internal Ratings Based approach.

9. BIPRU 6 (Operational Risk)

WS is a limited licence firm.

10. BIPRU 7 (Position Risk Requirement)

WS has neither trading book positions, positions falling within BIPRU 7.5.3, nor any positions in commodities nor foreign currency PRR.

11. BIPRU 10 (Concentration risk requirements)

WS monitors daily, and reports to the board monthly, its total exposure to a counterparty, connected counterparties or a group of connected clients in the firm's non-trading book (it does not have trading book).

WS uses its Management Tools to ensure that a) the total exposure to a counterparty, connected counterparties or a group of connected clients does not exceed 25% of its capital resources; and b) the exposures to counterparties, connected counterparties or a group of connected clients which in aggregate equals or exceeds 10% of the firm's capital resources, do not exceed 800% of its capital resources.

If WS exceeds (or is aware that it will exceed) either limit, it will notify the FSA without delay with an explanation as to how the limit came to be exceeded and a plan of action for bringing its exposures within the limit.

12. Overall Pillar 2 rule

WS uses its monthly Board meetings and the board papers prepared for them to ensure it has capital resources and internal capital that it considers adequate to cover a) the nature and level of the risks to which it is or might be exposed; b) the risks in the overall capital adequacy rule; and c) the risk that the firm might not be able to meet its capital resources requirement in the future.

The board papers include: monthly and year to date income statements; a balance sheet; an analysis of the business conducted in the period and forecast; a reforecast for the year; a budget; a detailed breakdown of the types and distribution of the financial resources; any amendments to the ICAAP document; and month end FSA capital calculations. WS uses its monthly Board meetings also to ensure that the processes, strategies and systems required by the overall Pillar 2 rule and used in its ICAAP, are both comprehensive and proportionate to the nature, scale and complexity of its activities.

13. Risk weighted exposures for credit risk

The disclosures required form part of the published accounts.

14. Non-trading book exposures to equities

The information regarding the exposures is set out in the published accounts.

15. Exposure to interest rate risk

The WS board considers that there is not significant exposure to interest rate risk as the impact of change is not significant.

16. Exclusions

WS is not required to make certain disclosures because it has no trading book; no retail exposures; does not use the IRB approach; does not securitise its assets; and it does not have an operational risk requirement as it is a limited licence firm.

Schedule 1



Pillar 3: Westhouse Securities Capital Resources calculation

Capital Resources	£ '000
Tier 1 Capital	
Issued and called up share capital	109
Share premium	1,007
Audited Reserves (net of current losses)	35
	<hr/>
	1,151
Deductions from Tier 1 capital	(265)
Tier 2 Capital	
Perpetual Subordinated Loan	500
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	1,386
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Capital Resources Requirement	
Financial Resources Requirement	806
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The Capital Requirement has been determined by the Fixed Overhead Requirement which is in excess of other requirements.

Other requirements were:

Base capital Requirement	40	
Market Risk	--	
Credit Risk		
Exposure Class 6 "Institutions"	10	
Exposure Class 7 "Corporates"	67	
Exposure Class 16 "Other"	66	
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All the issued and called share capital is fully paid and there are no special or unusual conditions attaching to them.

The perpetual subordinated loan is perpetual and subordinated and issued in accordance with the FSA's Rule IPRU (INV) 3-63.