WHITECHURCH SECURITIES LTD PILLAR 3 DISCLOSURES

28th FEBRUARY 2019

1. REGULATORY FRAMEWORK

With effect from the 1st January 2014 the Capital Requirements Directive IV ("CRD IV") of the European Union created a revised regulatory capital framework across Europe governing the amount and nature of capital that an investment firm must retain.

The framework consists of three 'pillars' –

Pillar 1	sets out the minimum capital requirement firms are required to maintain to meet credit, market and operational risk.
Pillar 2	requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or are likely to be, exposed. This is implemented through the Internal Capital Adequacy Assessment Process (ICAAP) undertaken by the firm.
Pillar 3	requires firms to publicly disclose certain details of their risks, capital and risk management processes.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The requirements of CRD IV have been set out by the Financial Conduct Authority (FCA) in the rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Investment Firms (IFPRU). Pillar 3 also incorporates the provisions of Systems and Controls (SYSC 19) covering the remuneration code.

2. COMPANY OVERVIEW

Whitechurch Securities Ltd ("WSL" or "the Firm") was established in 1982 and is privately owned. WSL is authorised and regulated by the Financial Conduct Authority and our FCA firm reference number is 114318.

WSL provides discretionary investment management services and financial advice services to private clients, virtually all of whom would be considered as 'retail clients' by the FCA.

Using the guidance provided in the IFPRU rulebook WSL is classed as an IFPRU €125,000 limited licence firm as it is able to hold client assets but does not trade on its own account or underwrite issues of financial instruments. It is not expected that this category will change in the foreseeable future.

The Pillar 1 capital requirement for a €125,000 limited licence firm is set out in the Capital Requirements Regulation (CRR) as follows -

- Its base capital requirement of €125,000; or
- The sum of its market and credit risk capital requirements; or
- Its fixed overhead requirement

WSL has calculated that using the requirements shown above the level of capital held will be based on its fixed overhead requirement as this exceeds the base capital and market and credit risk capital requirements.

The Firm's approach to assessing the adequacy of its internal capital is set out in our annual ICAAP report. The ICAAP involves separate consideration of the risks the Firm's capital is subjected to, with stress testing analysis to determine whether any additional capital is required for Pillar 2.

Following completion of the last annual ICAAP it was agreed that no additional Pillar 2 capital is required and the Firm's capital will be calculated using its base fixed overhead requirement.

Basis and Frequency of Disclosure

The Firm is not part of a group of companies and prepares its accounts to 28 February annually.

The Pillar 3 disclosures set out in this document have been approved by the Board of Directors. They will be made available on an annual basis and published on the company website (www.whitechurch.co.uk) as soon as is practical following the completion of the annual financial statements.

The information included within the Pillar 3 disclosure will not be audited by WSL's external auditors and does not constitute any form of financial statement.

3. RISK MANAGEMENT

Governance & Oversight

The Firm's Board of Directors is the governing body responsible for the business strategy and risk management as well as determining the culture of the firm.

The Board meets on a monthly basis and each department supplies Management Information which helps to identify trends and issues that may need addressing. Risk management is embedded in the culture of the firm and is considered at all stages of the Board meeting.

On an annual basis a formal risk management review of the whole company is undertaken by the Board and the annual risk management report produced for Board sign off.

The firm's capital requirements under Pillar 1 are monitored on an ongoing basis and form part of the monthly management accounts. Budgets are updated quarterly and this includes a forecast of changes to the firm's capital requirement and the amount of capital held for the budgeted period.

Given the nature, size and complexity of the company the Board do not feel a Risk or Internal Audit Department are viable at present.

The ICAAP process

The ICAAP is undertaken annually and brings together the risks the Firm faces and the budgeting and business planning process. It also considers the appropriateness of the stress tests performed as part of this process.

The ICAAP includes an assessment of all material risks faced by the Firm and the controls in place to identify; manage and mitigate these risks. The risks identified are stress tested against various scenarios to determine the level of capital that needs to be held.

A reverse stress testing scenario is also included in the ICAAP to identify a potential scenario in which the Firm would not remain viable, this allows the Board to be aware of potential stress points and to have contingency plans in place. As part of this reverse stress test we also calculate the amount of capital required to undertake an orderly wind-down of the firm to ensure the capital held by the firm is sufficient under these circumstances.

4. RISKS

The main risks identified by the Firm are as follows –

Business Risk

The key business risk is a reduction in funds under management caused by a market downturn or a loss of clients leading to a reduction in fee income. Business risk is looked at in detail as part of the stress testing in the annual ICAAP to assess the impact on profits under various scenarios.

Credit & Counterparty Risk

This risk considers unexpected losses that may arise as a result of the Firm's clients and counterparties failing to meet their obligations to settle transactions and is also considered as part of the ICAAP.

We believe the Firm's credit risk is not significant. The only material credit exposures are amounts receivable from market counterparties; however, these firms are regulated by the FCA hence the limited scope for risk in this area.

Interest Rate Risk

WSL is not a bank or similar institution and does not lend money so there is no direct risk from interest rate movements. Interest is received on company deposits which may cause the level of annual income to fluctuate but this would not materially affect annual profits.

A significant, quick rise in interest rates may have a small effect on stockmarket performance, however, falls in stockmarkets are considered within business risk.

Liquidity Risk

The risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resource only at excessive cost.

Although working capital management is monitored, due to the stable nature of our monthly income and overheads we do not have any major monthly fluctuations which are not anticipated within our budgeting process.

The Firm operates a Liquidity Risk framework to ensure that ongoing liquidity is monitored and at acceptable levels. Overall, the Board is satisfied that there is no specific risk arising from a lack of liquidity and if the need did arise the Firm has contingency funding available from the shareholders.

Market Risk

The only markets the Firm are exposed to are stockmarkets and market falls are considered within the stress testing process under business risk. The company has no exposure to foreign exchange markets.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Board of Directors are aware that operational risk can never be eliminated but it seeks to minimise the probability and impact of events. Extensive management information is prepared on a monthly basis by all departments and there are clear lines of escalation within the Firm.

The operational risk policy includes an annual review of the company's risk matrix by the Board of Directors to ascertain the probability and impact of a variety of events occurring. This process also allows the existing control procedures to be reviewed to ensure that they are still deemed adequate to comply with the ever changing laws and regulations.

Although we do not have an internal audit department various audits are undertaken by external third parties and the compliance department, robust written procedures and manuals are also available covering all departments.

The Firm also mitigates its operational risk by means of insurance policies such as Professional Indemnity insurance and Theft insurance.

Business continuity has been considered through the Disaster Recovery Policy, a succession plan is in place and we have robust IT procedures which are tested regularly to ensure the business can continue through such a disaster as well as insurance to cover any financial losses.

5. CAPITAL RESOURCES

The 'Total Risk Exposure' (TRE) for the Firm is calculated as the annual 'Fixed Overhead Requirement' (FOR) (i.e. ¼ of the Firm's relevant annual fixed expenditure) multiplied by 12.5 and represents the minimum capital required for Pillar 1 capital adequacy purposes.

The Firm must maintain capital resources equal to or in excess of this Pillar 1 requirement at all times.

The Firm's regulatory capital resources (as at 28th February 2019) are as follows:

	£
Common Equity Tier One Capital	
Permanent Share Capital	2,000
Profit and loss account and other reserves	1,157,977
Total Common Equity Tier One Capital	**1,159,977**
Additional Tier One Capital	0
Tier Two Capital	0
Total Regulatory Capital	**1,159,977**

There are three tests of capital adequacy to which the company must adhere –

Test 1 – To hold Common Equity Tier 1 capital (CET) equivalent to at least 4.5% of the company TRE

Test 2 – To hold Additional Tier 1 capital (or CET) equivalent to at least 6% of the company TRE

Test 3 – To hold Tier 2 capital (or CET) equivalent to at least 8% of the company TRE

The capital position of the Firm under these three tests on 28th February 2019 is as follows –

TOTAL RISK EXPOSURE	£11,463,768
CET1 CAPITAL REQUIREMENT (4.5% OF TRE)	£515,870
ADDITIONAL T1 CAPITAL REQUIREMENT (6% OF TRE)	£687,826
TOTAL CAPITAL REQUIREMENT (8% OF TRE)	£917,101
CET1 CAPITAL	£1,159,977
CET1 CAPITAL RATIO	10.12%

The Board are therefore happy that the Firm is, and has been throughout the latest financial year, adequately capitalised for Pillar 1 purposes.

6. REMUNERATION CODE

The Firm follows the prescribed FCA guidelines and is classified as a solo remuneration code level 3 firm within the SYSC 19 Remuneration Code; therefore, the remuneration policies and disclosures are proportionate for a firm of this size.

The Remuneration Committee shall comprise of at least three members who will all be Board Directors, although not independent or non-executive, members will include the Compliance and HR Director in order to maintain an element of challenge. The Company Chairman may be a member of, but not chair, the Remuneration Committee.

The Remuneration Committee meet at least twice a year and are directly responsible for the overall remuneration policy. Remuneration is designed to ensure that the firm does not encourage excessive risk taking and staff interests are aligned with those of clients.

The Committee and the Board ensures that both fixed and variable remuneration structures promote effective risk management and meet the financial requirements of the company and give consideration to capital and liquidity requirements. The Firm takes into account factors that it deems necessary in determining such policy, including that such arrangements are consistent with and promote effective risk management. The relative position compared to companies in the peer group is also taken into account. The objective of the policy will be to ensure individuals will be provided with appropriate incentives to encourage enhanced performance and will be, in a fair and responsible manner, rewarded for their individual contributions to the success of the Firm and be aligned with the long-term corporate objectives and business strategy of the Firm.

Code Staff Criteria

Using the FCA's criteria the Board has determined that only senior management, those employees whose salaries are at or near director remuneration level and those members of staff whose actions have a material impact on the risk profile of the Firm, including employees who are client facing, are classified as Code Staff.

As mentioned above the remuneration policy for all staff is set by the Firm's Board of Directors, who determine the overall level of remuneration and the split between base salaries, bonus and benefits in kind.

The Firm's remuneration packages are designed to reward employees and directors fairly but without encouraging excessive business risk or exposure to risk.

For the financial year ending on 28th February 2019 seventeen Code Staff were identified as working for the company and the remuneration paid was as follows –

Aggregate expenditure in respect of Code Staff was £1,140,009.

Remuneration expenditure was divided between fixed and variable remuneration as follows –

Fixed remuneration =	£935,490
Variable remuneration =	£204,519

In light of the figures supplied above the Board is happy that the Firm has met the FCA's remuneration code requirements for this financial year.