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PILLAR 3 DISCLOSURE

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Contents

1. OVERVIEW

1.1 Introduction

1.1.1 The Pillar 3 disclosure ("Disclosure") is prepared in accordance with the EU's Capital Requirements Directive ("CRD"), as implemented in the UK by the Financial Conduct Authority ("FCA") and aims to encourage market stability by developing a set of disclosure requirements which will allow market participants to access key information on firms' capital adequacy and risk assessment and control processes.

1.1.2 The Disclosure is in addition to minimum capital requirements (Pillar 1) and supervisory review (Pillar 2), also under the CRD. The relevant rules for implementation of Pillar 3 are contained in the FCA's sourcebook.

1.1.3 The three 'Pillars' which constitute the CRD are:

Pillar 1, which establishes the minimum capital requirements in respect of credit, market and operational risk exposures or fixed overhead requirements;

Pillar 2, which requires the assessment of whether ADSSL's Pillar 1 Capital is adequate to meet risk exposures and the calculation of the amount of additional capital that should be held against those exposures and forms the basis of its Internal Capital Adequacy and Assessment Process ("ICAAP") required by the FCA; and

Pillar 3, which requires the public disclosure of specific information about the underlying risk management controls and adequacy of its capital position.

1.1.4 This statement contains the disclosures required under the Rules unless it is not applicable to ADS Securities London Limited ("ADSSL") or it is considered as being proprietary or confidential information (the "ADSSL Disclosure").

1.2 Frequency

1.2.1 ADSSL will make the ADSSL Disclosure on an annual basis, or more frequently if there is a material change in the approaches or permissions used to calculate regulatory capital as stated in BIPRU 11.3.1r

1.2.2 The ADSSL Disclosure will be made as soon as reasonably practical after completion of our annual financial statements.

1.3 Scope of the ADSSL Disclosure

The ADSSL Disclosure relates to the business and activities of ADSSL only on an individual basis, and not to any of its affiliates or related entities.

1.4 Location

The ADSSL Disclosure is made available on the website at https://www.adss.com/en-gb/legal/regulation/

1.5 Review and Approval

The ADSSL Disclosure has been reviewed and approved by the ADSSL Board of Directors (the "Board") and is not subject to an external audit.

2 GOVERNANCE and BOARD COMMITTEES

2.1 Board structure

ADSSL operates its business under a governance and risk control model which satisfies best practice and legal and regulatory requirements for private limited companies. It has an independent governance arrangement and while the company currently relies on Transfer Pricing it is well capitalised and is yielding the forward view that the business will move into a position where it is not dependent on it.

Decisions are ratified as necessary by its business management committees, having regard to the local legal and regulatory obligations, and implemented accordingly.

The Board and its Committees

The governance bodies of ADSSL are presented below.

Board of Directors – As at 31 December 2019 the Board consisted of one executive director and two independent non-executive directors. The chairman is an independent non-executive director. The Board meets at least quarterly and all meetings have minutes taken. The Board has reserved to itself all matters for decision-making but has also delegated some responsibilities to specific Board Committees, such as the Audit, Risk & Compliance Committee (ARCC), Remuneration, Management and White Label SLA under specific documented terms of reference.

Audit, Risk & Compliance Committee (ARCC) - this committee consists of two independent non- executive directors and the Head of Finance. The Chairman is an independent non-executive director. Other members of senior management can attend meetings if invited to. All meetings have documented minutes taken.

The ARCC meets at least ten times a year and its meetings are scheduled to occur approximately 1 week before each Board meeting in order to ensure that any matter that requires consideration by the Board is properly reviewed and presented.

In terms of Risk Oversight, the ARCC reviews the risk controls adopted by each business line and department to ensure that they are appropriate and effective for managing day-to-day risk, including escalation processes to senior management.

White Label SLA committee - this committee consists of senior management of ADSSL and its CEO (who is the chairman and executive director).It considers all matters relating to the day-to-day operations between ADSS and ADSSL, as well any strategic issues facing the business. The committee meets quarterly and meetings are minuted.

The outsourcing arrangement includes the following services, Front office, Marketing, Human Resources, Business continuity, Legal, Compliance, Operations, Risk, Cyber & Information security and platform management and support.

Remuneration and Nomination Committee (“RNC”) – this committee consists of two independent non- executive directors. It considers all matters relating to remuneration and nomination within ADSSL. The RNC meets at least annually in March and its meetings are minuted.

Management Committee – this committee consists of the CEO (who acts as chairman of the meetings) and all Heads of Departments including Finance, Compliance, Operations, Sales and I.T. The committee meets monthly and considers all matters relating to the day to day operations of the business.

Each committee has a Terms of Reference which is reviewed a minimum of once a year by each committee chair and its members and is presented to the Board for approval.

The Terms of Reference set out each committee’s ‘Mission’, ‘Membership’, ‘Duties and Responsibilities’.

The committees will report regularly to the Board in accordance with their Terms of Reference.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

3.1 Risk Appetite

ADSSL's Risk Appetite is directly linked to its business strategy, funding capacity and capital planning. The firms Risk Appetite Statement (RAS) is an expression of the level of risk ADSSL is willing and able to take in pursuit of its strategic objectives. The RAS provides clear accountability and clarity to the risks that have been identified within the Rick Management Framework consistently with the pursuit of profitability and other strategic objectives. ADSSL "Risk Capacity" is the maximum level of risk that ADSSL can assume given ADSSL's financial resources, earnings profile and obligations to stakeholders. ADSSL Risk Capacity is a maximum limit which is not intended to be reached, therefore, a specific risk buffer has been introduced that separates ADSSL's Risk Appetite from its Risk Capacity. Such a buffer has been defined by means of stress testing and represents ADSSL's Risk Tolerance.

ADSSL's Risk Appetite is monitored by Senior Management to ensure that the aggregate risk profile of ADSSL (i.e. all material risks as defined within ADSSL's Risk Management Framework) remains within the limits and tolerances set by the Board.

3.2 Risk Assessment

ADSSL has undertaken a full risk assessment and identified the following as the principle areas of risk to which it may be exposed:

Pillar 1

3.2.1 Market Risk

ADSSL despite being a principle deal broker does not hold any proprietary trading positions as it back to back hedges its client facing trade with its liquidity providers. As part of its normal course of business ADSSL is exposed to exchange rate movements due to commission income denominated in US dollars and Euro's. ADSSL mitigates the risk of losses due to adverse movement in exchange rates by selling surplus foreign currency balances into Sterling.

3.2.2 Credit Risk

Credit risk is the probable risk of loss resulting from a borrowers' failure to repay a loan or to meet its contractual obligations.

The Counterparty / Credit Risk Exposure Amount is composed of the Credit Risk Capital Component and the Counterparty Risk Capital Component. The Credit Risk Capital Component is calculated in accordance with Article 111 of the Capital Requirements Regulation (CRR); ADSSL has adopted the Standardised approach for Other Items outlined in CRR Article 134. Subsequently, ADSSL makes a 100% TREA provision for all fixed assets, debtors and prepayments and a 20% adjustment on all bank balances, regulated and institutional debtors.

ADSSL has counterparty / credit risk exposure to banks and liquidity providers arising from funds deposited with these institutions for both working capital requirements and client funds. ADSSL mitigates the risk to its own funds – as well as those of clients - by ensuring that ADSSL's counterparties are well capitalised institutions with a market rating of at least BBB.ADSSL follows a standardised approach to calculating credit risk. The counterparty / credit risk capital requirement is 8% of the counterparty risk weighted exposure. As a result of the stress testing approach ADSSL has also considered any further counterparty / credit risk to counterparties' and deemed this not to be material.

In addition ADSSL are exposed to risk if a client were to default. The firm would then take on this position exposure and risk therefore it has included the potential future exposure as a credit risk.

3.2.3 Operational Risk

Operational risk is defined as having the "risk of change" in value caused by the fact that actual losses, incurred from inadequate or failed internal processes, people, controls and systems or from external events differ from expected losses. It could also be incurred from business change, legal or operational issues, changes to the regulatory landscape, business continuity events, cyber incidents or IT issues internally or via outsourced partners. It also includes other classes of risk such as fraud, security, privacy protection, legal and environmental risk. As long as people, controls, systems and processes remain imperfect operational risks cannot be fully eliminated.

Unlike other risks like credit or market risk, operational risks are not willingly incurred nor are they revenue driven. ADSSL'S risk and controls assessment is now finalised and emphasis will turn to the actions to remediate the gaps in the controls landscape. The majority of the incidents are business disruptions due to system failures. ADSSL is aware that it could experience operational risk resulting from inadequate internal processes and failures in relation to the people and systems in the company or from external events.

The firm has used the Basel II Basic Indicator approach to measure Operational risk. This means that the firm must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income. The fixed percentage is typically 15% of annual gross income.

3.2.4 Liquidity Risk

Liquidity risk is the risk that ADSSL will not have sufficient liquid assets to meet its financial obligations as they fall due. In order to mitigate this risk, ADSSL operates a prudent business model in relation to its own monies and it's interaction with clients. ADSSL's own resources are kept predominately in cash or cash equivalent instruments and there is no leverage within the business. This ensures that the full weight of ADSSL's balance sheet is available at short notice to support any liquidity requirements.

<u>Pillar 2</u>

3.2.5 Foreign Exchange Risk

ADSSL uses sterling as its functional currency with the vast majority of its operating expenses denominated in sterling. Income however is derived in other currencies (mainly USD, Euro and Yen) giving rise to a foreign exchange exposure.

3.2.6 Business Risk

ADSSL is aware of the potential business risk resulting from its significant revenue exposure to ADS Securities LLC ("ADSS"). The exposure arises from the possibility for "ADSS" to reduce its trading volumes which would impact on ADSSL's revenue and profitability.

3.2.7 Regulatory/Legal Risk

Regulatory risk is defined as having the "license to operate" withdrawn by a regulator or having conditions applied that adversely impact the economic value of the firm. This could be breaches of the firm's compliance regulations which can result in fines. The FCA will determine a figure that reflects the seriousness of the breach and in many cases the amount of revenue generated by a firm from a particular product line is indicative of the potential harm that a breach may cause. Having determined the relevant revenue the FCA will then decide on the percentage of that revenue that will form the basis of that breach and choose a percentage between 0% and 20%.

ADSSL has created and will continue to adjust operations, compliance, finance and governance frameworks to identify, understand, measure and control, authorize and mitigate existing and evolving sources of risk.

3.2.8 Client Concentration Risk

The Board of ADSSL assessed a number of scenarios related to revenue concentration risk that may not be captured sufficiently by the capital computed under Pillar 1. The Board believes it to be prudent that a Pillar 2 capital add-on be applied to cover for this risk.

ADSSL is aware of the potential business risk deriving from a dependency on its largest clients and has calculated a scenario included in Pillar 2 to cover for losing its top Institutional client and its top retail client.

3.2.9 Group Concentration Risk

The firm rely heavily for many of its critical components on its parent company.

An ADSH default would result in ADSSL being responsible for the other side of the market risk of all London clients. In addition ADSSL would assume the credit exposure during the time it would take to find a replacement provider.

In addition the Service Level Agreement (SLA) between London and Abu Dhabi include services for Front Office, Human Resources, Cyber Security, Risk, Infrastructure, Platform Support Business Continuity and Legal In addition they provide IT support and out of hour's desk coverage.

In order to mitigate these risks as much as it can the firm has a joint Risk committee with Abu Dhabi which discusses any issues with the delivery of the SLA in all its parts.

The Audit Risk and Compliance Committee (ARCC) meet at least 10 times a year and review the risk controls adopted by each business line and departments along with the observations and recommendations put forward by the Risk committee to ensure they are appropriate and effective for managing day to day risk including escalation processes to senior management.

In order to address the dependency on its sole liquidity provider the firm has added a further 2 liquidity providers.

3.2.10 Large Exposure Risk

ADSSL is aware that it holds a large credit exposure with ADSS. However this is not made up of any trading risk so is not reported as a large exposure. Additionally, there are large exposures with National Westminster Bank and Lloyds Bank, we include these as a credit risk in Pillar 1.

3.2.11 Cyber Risk

Cyber security risk means any risk of financial loss, disruption or damage to the reputation of the firm as a result of using interconnected technological systems. ADSSL uses various techniques of protecting its computers, networks, programs and data from unauthorised access or attacks that are aimed for exploitation.

The firm has controls implemented that include, advanced endpoint protection, application whitelisting, asset inventory, custom / threat intelligence, database encryption, data loss prevention, DDOS mitigation, DMARC, DNS filtering,, employee awareness training, incident response plans, intrusion detection systems, mobile device encryption, penetration tests, perimeter firewalls, two factor authentication, vulnerability scans, web application firewall, web content filtering and security information and event management.

3.2.12 Conduct Risk

Conduct risk is the term used to describe risks associated to the way an organisation and its staff relate to customers and the wider financial markets, it considers the accountability and responsibility of senior management in the performance of their duties. It is a key requirement for the regulator that a firm can demonstrate strong corporate governance and leadership.

3.2.13 Key Personnel Risk

Key Personnel risk is the risk of ADSSL losing either a member of the Board or of the Senior Management team. This may have an adverse effect on both the growth of the business and/or the retention of existing business.

The firm has adopted a remuneration code policy to achieve the fundamental objectives which are to attract, retain and reward talented staff by offering compensation that is competitive within the industry, motivates management to achieve the firm's business objectives and encourage high level performance and aligns the interests of management with the interests of shareholders.

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4 CAPITAL RESOURCES

4.1 Pillar 1 Capital, Pillar 2 Capital and Wind-down Costs

The firm's Tier 1 Capital as at 31st December 2019 was £8.3 million, a surplus of £3.7 million over total Capital Requirements of £4.6million.

Pillar 1 Capital requirement consists of credit risk, operational risk and market risk. These have resulted in a Pillar 1 requirement of £1.5m. The firm has calculated its Individual Capital Guidance (ICG) recommended by the FCA as 298% of Pillar 1 being £4.6m.

Pillar 2 Capital covers business risk, client concentration risk, cyber risk, regulatory risk, and reputational risk. Stress testing was applied to both projected revenue and also to the loss of existing clients. These stresses resulted in a total Pillar 2 Capital requirement of £2.9 million.

The total capital requirements (Pillar 1 & Pillar 2) consequently amounts to £4.4 million.

Wind down costs as at 31st December 2019 was £4 million.

Since the ICG exceed both the Pillar 1 and Pillar 2 combined requirements and the wind down costs, ADSSL'S Total Capital requirements is £4.6m.

4.2 The Internal Capital Adequacy Assessment Process ("ICAAP")

The firms ICAAP submission summarises the risk based approach that ADSSL has adopted towards evaluating and managing its aggregate risk profile, capital requirement and regulatory capital resources. The document explains the approach that ADSSL has taken towards identifying its material risks, the potential impact of such risks at varying levels of stress and the capital requirement and the related capital resources that ADSSL is projected to hold over the horizon of the ICAAP.

The responsibility for ensuring that ADSSL has adopted an effective ICAAP framework sits with the Board. It is also the responsibility of the ARCC to regularly review and challenge the ICAAP Submission.

The Capital Requirements Directive (CRD IV) drives the European capital requirements for investment firms. This has been implemented by the FCA in its rulebooks with direct reference to the Capital Requirements Regulation (CRR). The Firm is a UK registered FCA regulated Limited company. As such it is categorised under CRD IV as an IFPRU licence firm; with a base capital requirement of €730k

The Board of ADSSL exercises challenge, oversight and approval of the ICAAP framework and ICAAP Submission. The document is reflective of the revised approach adopted. The Executive Directors are responsible for the day-to-day ICAAP maintenance, but all key inputs, such as financial assumptions are open to challenge by the Board. Therefore on a day-to day basis it is the Executive Directors that develops the assumptions based upon the activities of the firm, monitors and assesses risk and based upon these risk develops appropriate stress tests and scenarios to monitor them. It also is responsible for monitoring and maintaining adherence to the regulatory Capital requirements.

4.3 Asset encumbrance

The table below discloses the firms encumbered assets as at 31 December 2019 based in guidance from the European Banking Authority.

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

ADSSL have no encumbered assets and have reported the below.

5 Remuneration

ADSSL is subject to the FCA's Remuneration Code and is required to produce remuneration disclosures in accordance with Article 450 of the Capital Requirements Regulation.

The Firm is incorporated in the UK and is authorised and regulated by the FCA. The Firm acts as a principle dealer who is counterparty to all its client's trades. The Firm in turn it nets off its market risk by hedging all its trades with its sister company based in Abu Dhabi.

The Firm has identified itself as a Proportionality Level Three Investment Firm and adopted a proportioned approach to its Policy.

It has considered its individual needs on an ongoing basis and, where appropriate, disapplied certain remuneration principles (as set out below) in accordance with FCA guidance.

The Firm will review any principles which have been disapplied on at least an annual basis, to ensure that these continues to be appropriate for the Firm.

Aggregate Remuneration Code Staff annual remuneration was £921,813 for the financial year ended 31st December 2019. The remuneration - awarded on a case by case basis - may comprise of base salary, variable remuneration in the form of monetary awards, long-term incentive plans, pension contributions and benefits in kind in accordance with FCA rules.

ADSSL seeks to attract and retain employees, who are motivated by its culture, high ethical business standards and reputation.

ADSSL's remuneration policy promotes staff retention and loyalty and all variable remuneration paid rewards excellence based upon individual and group success with the ADSSL's profitability underpinning all variable remuneration schemes in operation.

The remuneration governance is operated through regular meetings between the Board, Human Resources and a select number of senior managers.