PILLAR 3 DISCLOSURE

To 31st December 2017

Contents

1 Overview

These disclosures are made in order to comply with the FCA's rules and the EU directives that relate to the revised capital adequacy framework agreed by the Basel Committee.

Basel II is organised around three "pillars" which the Basel Committee considers to be complementary:

- Pillar 1: minimum capital requirements;
- Pillar 2: supervisory review;
- Pillar 3: market discipline.

To facilitate market discipline Pillar 3 contains requirements for firms to publish specified information on the basis on which Basel II applies to them, their capital resources and capital requirements, and their risk Exposures and risk management.

FCA's rules for implementing Pillar 3 as incorporated in the EU Capital Requirements Directive are contained in Chapter 11 of The Prudential Sourcebook for Banks, Building Societies and Investment Firms.

In this document, we disclose information in accordance with the following BIPRU 11.5 Rules unless it has been determined as immaterial or of a proprietary or confidential nature:

- BIPRU 11.5.1R on our risk management objectives and policies.
- BIPRU 11.5.2R on the scope of application of directive requirements.
- BIPRU 11.5.3R on our capital resources.
- BIPRU 11.5.4R (subsections 1, 2, 4 (a) (i), (ii), (v), (vi), 4 (b) (i) and (ii) and 5) on our compliance with the rules of BIPRU and on Pillar 2 requirements.
- BIPRU 11.5.7R on exposure to counterparty credit risk.
- BIPRU 11.5.8R on exposure to credit risk.
- BIPRU 11.5.12R (subsections 1(a), (b), (e) and (f) and 2 (a) and (b)) on market risk.
- BIPRU 11.5.14R on exposure to operational risk; and
- BIPRU 11.5.16R on exposure to interest rate risk in the non-trading book.

2 Frequency and location of disclosure

The Board of Directors ("the Board") of TIO Markets UK Limited ("TIO UK") believes that Pillar 3 disclosures should be made on an annual basis unless there has been a material change in the approaches or permissions used to calculate regulatory capital. The Board believes that the publication of these disclosures on TIO UK's website is the most appropriate medium.

These disclosures are based on the position as of 31 December 2017.
Future disclosures will be issued on an annual basis in accordance with the requirements of Pillar 3.

Pillar 2 capital requirements are excluded from this disclosure but can be material in determining total capital requirements and any available surplus capital.

3 Verification

These disclosures have been reviewed by the Board and are published on TIO UK's website (www.tiomarkets.uk).

The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in company's annual report.

4 Scope of application

The disclosures in this document are made in respect of TIO UK which provides execution only foreign exchange products to Professional traders.

TIO UK is a UK firm and is not reporting on a consolidated basis under the BIPRU 8 Rules of the FCA.

5 Risk management objectives and policies

The Board sets the strategy and policies for managing risks and is responsible for:

- Governing TIO UK's strategic direction and defining and monitoring acceptable risk parameters for TIO UK;
- Ensuring that the necessary financial and human resources are in place for TIO UK to meet its objectives;
- Monitoring the operating and financial results against plans and budgets.

The Board has an agreed set of authorities which are delegated to individuals; in parallel, it has a list of matters reserved for its attention.

TIO UK has an established risk management function to define key responsibilities, reporting requirements and mechanisms for managing operational and other risks throughout the business.

The framework draws from accepted best practice in risk management standards and is designed to support compliance with regulatory requirements in all jurisdictions in which the business operates. The framework also details the management of risks and opportunities by all employees and consultants as part of a risk-aware culture.

The Board has responsibility for sanctioning the risk management policies and procedures and for determining TIO UK's risk appetite.

The most significant risk types to which TIO UK is exposed are discussed below.

5.1 Operational risk

Operational risk is the risk of loss or negative impact to TIO UK resulting from inadequate or failed internal process, people and systems or from external factors such as regulations and key suppliers; it includes legal and financial crime risks but excludes strategic, reputation and business risks.

The following have been identified as the main sources of operational risk:

5.1.1 Business continuity

There are potentially a number of events that may result in the invocation of TIO UK's Business Continuity

Plan ("BCP") and/or the disaster recovery procedure.

Examples of the events that are likely to occur to require partial or full disaster recovery of people and IT systems and infrastructure are as follows;

- Fire;
- Bomb threat;
- Power outage;
- No internet service; and
- Cloud environment incident.

The business continuity management arrangements ensure that 'business as usual' impact is kept to a minimum.

5.1.2 Fraud

Fraud is defined as the risk that client or company assets may be misappropriated. The controls that TIO UK has to deal with such risk in relation to payments, payroll, purchasing and treasury are designed to prevent and detect errors. TIO UK's treasury monitoring, daily cash reconciliations and authorisation procedures are key controls designed to detect material fraudulent activities promptly.

Purchasing (budgetary and approval controls) and dealing activity monitoring are also set to minimise the possibility of fraudulent activity.

5.1.3 Information technology

The Board has overall responsibility for ensuring that effective IT strategy in place and that IT solutions are prioritised to meet business strategic requirements.

5.1.4 Regulatory action

TIO UK endeavors to maintain good working relations with regulators within each jurisdiction in which it operates.

TIO UK has an experienced compliance professional in place to ensure timely compliance with local regulatory requirements.

5.2 Market Risk

TIO UK does not hold proprietary trading positions.

5.2.1 Market price risk

This is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices other than due to currency or interest rate risk.

Market risk arises from TIO UK's client's foreign currency trading. TIO UK takes positions to hedge these client positions. All trades made to hedge client positions are margin-traded so the profit or loss arising on the position is settled on a daily basis.

5.2.2 Currency risk

This is the risk that the value of assets and liabilities denominated in a foreign currency will fluctuate due to adverse movements in exchange rates. TIO UK maintains currencies at its deposit institutions in currencies other than sterling. Risk is monitored by the Board.

5.3 Credit Risk

Credit risk is the risk that TIO UK's clients and counterparties may fail to pay amounts they owe TIO UK as they become due. TIO UK's principal financial assets are deposits and other cash balances held with banks and other financial institutions, trade and other receivables and investments.

5.3.1 Deposits and other balances held with banks and other financial institutions

It is TIO UK's policy to manage credit risk by only placing funds with top Tier One financial institutions that meet certain short-term and long-term external credit ratings provided by Moody's Investors Service and Fitch Ratings Limited. These exposures are monitored on a daily basis. Credit risk also arises from deposits and excess funds placed with brokers that TIO UK uses to hedge its net client positions.

5.3.2 Client credit risk

TIO UK does not offer credit facilities to clients and funds must be deposited in order to trade. TIO UK operates real-time marked-to-market trading platforms with client profits and losses being credited and debited automatically to their account. Credit risk occurs where a client's funds held by TIO UK (margin and free equity) are insufficient to cover losses incurred by the client upon liquidation. For most clients, TIO UK operates an automatic auto liquidation system, where a client has used its entire Initial margin, all of its open positions will be liquidated. Where a client is setup on a credit base platform, the client's margin requirement is monitored in real time and margin calls are issued when the client has used his initial and variation margin. If the clients do not deposit variation margin within the time requested, the client will be notified that some or all of his/her open positions will be liquidated. Management has identified that these occurrences are rare due to the fact that TIO UK clients maintain margin in excess of required initial margin for their open positions.

Client credit risk is therefore monitored in real time with reference to the market price movement of the position and the equity the client holds in relation to the margin requirement calculated for their position. Margin calls and liquidating client's positions are used to mitigate the risk.

5.4 Liquidity risk

Liquidity risk is the risk that TIO UK will encounter difficulty in meeting its obligations from its financial liabilities. TIO UK's policy is to ensure that, as far as possible, it will always have sufficient liquidity to meet its financial liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

TIO UK maintains only cash deposits to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis and management information provided monthly to management. All treasury policies and procedures are approved by the Board.

5.5 Capital Resources

At 31st December, 2017 the company Tier 1 capital (comprises of share capital and retained earnings) amounted to USD 584,000.

5.6 Capital adequacy

At 31st December, 2017 and throughout the year, TIO UK has complied with the capital requirements as required by the FCA.

5.7 Capital management

TIO UK has adopted the standardised approach to both credit and operational risk since 1 January 2011 in order to calculate the Basel II Pillar 1 minimum capital requirement under the Capital Requirements Directive.

TIO UK's objectives for managing capital are as follows:

- To comply with the capital requirements set by the FCA and all other regulators to which the TIO UK is subject to.
- To ensure that the TIO UK maintains a strong capital base to support the development of its business.

5.8 Internal Capital

TIO UK undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of capital requirements. This is undertaken annually or more frequently if required. The outcome of the ICAAP is summarised in an Internal Capital Assessment (ICA) document and presented to the Board. The ICAAP covers all material risks to determine the capital requirement over a twelve-month horizon and includes stress scenarios to satisfy regulatory requirements.

5.9 Operational risk

TIO UK has adopted the 'basic indicator' approach to calculating the Pillar 1 capital requirements for operational risk. This required an operational risk capital equivalent to 15% of the three-year average of TIO UK's net income, or 3 years projected budget.

5.10 Credit risk

Impairment of financial Assets

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset ("a loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets. Evidence of impairment could include significant evidence that the counterparty will enter bankruptcy or other financial reorganization. There are no assets impaired if there is objective evidence that a loss event has occurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions are deducted from the appropriate asset values in the balance sheets.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized the provision is adjusted and the amount or the reversal recognized in the income statement.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

Past due items

A financial asset is considered to be past due where the recovery of the financial asset is past its due date but no specific event has occurred which the Board consider deeming to have created impairment of the asset. There were no assets past due at the time of this report.

Credit exposures

TIO UK's Pillar 1 credit risk capital requirement is based on 8% of its risk-weighted assets.

TIO UK uses external credit assessments provided by Moody's and Fitch. These are all recognised by the FCA as eligible external credit assessment institutions (ECAI) for the purpose of calculating credit risk assessments under the standardised approach.

Funds deposited with various financial institutions are subject to internal concentration risk limits and these are reported regularly to the Board. Trading book positions with brokers are subject to various netting agreements to mitigate net credit exposure.

5.11 Counterparty credit risk

This arises principally from exposures in the trading book due to financial derivative instruments as well as unsettled non-trading book transactions and is calculated as 8% of the total risk-weighted exposure amounts.

5.12 Exposures to interest rate risk in the non-trading book

TIO UK has little or no exposure to interest rate risk since it does not have any loans outstanding and it maintains deposits of only cash and no other portfolio with instruments that would be affected by a change in interest rates.

5.13 Contact details

Should you have any queries, please contact:

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