INTERACTIVE BROKERS (U.K.) LIMITED

FCA REGISTRATION NUMBER 208159
COMPANY NUMBER 03958476

Pillar 3 Disclosures

2018

Contents

1. Introduction

1.1. Background

This Pillar 3 disclosure for Interactive Brokers (U.K.) Limited (‘IBUK’ or ‘the Firm’) is prepared in accordance with the EU’s Capital Requirements Regulation (‘CRR’) and Capital Requirements Directive (‘CRD’), together referred to as ‘CRD IV’, as implemented by the Financial Conduct Authority (‘FCA’).

Pillar 3 disclosures are intended to increase confidence in the financial markets by allowing market participants to review key information on a firm’s capital adequacy, risk exposures and management arrangements.

The regulatory framework established by CRD consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital required to meet a firm’s credit, market and operational risk;

- Pillar 2 ensures that a firm has sufficient capital to support the risks not fully captured by the minimum capital requirements, in accordance with the firm’s internal assessment; and

- Pillar 3 requires firms to make public disclosures of certain specific information concerning capital, risk exposures and risk management arrangements.

The disclosures made in this document meet IBUK’s obligation with respect to Pillar 3 and the requirements outlined in Articles 431-455 of the CRR. A detailed assessment of the requirements under Pillars 1 and 2 has been completed through IBUK’s Internal Capital Adequacy Assessment Process (‘ICAAP’).

1.2. Frequency and Scope of Disclosures

The disclosures made in this document are in respect of IBUK, which is an IFPRU 730k Limited Activity firm and are for the 52 week financial reporting period ended 31st December 2018.

IBUK publishes its Pillar 3 disclosures at least annually in conjunction with the date of publication of the financial statements. The disclosures are published on IBUK’s website (www.interactivebrokers.co.uk on the page ‘forms and disclosures’). Given the scale, complexity and range of its activities, IBUK’s Board assess that there is no current need to publish some or all of its disclosures more frequently than annually.

In these Pillar 3 disclosures IBUK has had regard to CRR Article 432. Article 432 states that a firm may omit one or more of the disclosures if the information provided by such disclosures is either not material, may be regarded as proprietary or if it is confidential. Information in disclosures is regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Information is regarded as proprietary if disclosing it publicly would undermine its competitive position. Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

These disclosures have been prepared solely for the purpose of fulfilling the Firm's Pillar 3 disclosure requirements and are not used by management for any other purpose. They have not been audited nor do they constitute any form of audited financial statement.

1.3. Company Overview

Interactive Brokers (U.K.) Limited

IBUK is an agency broker, executing and clearing orders for its clients and acts as a broker-dealer for certain financial products. Clients include affiliated companies. The Firm does not take proprietary positions for its account, except on a matched principal basis to support its brokerage business with clients. Positions resulting from facilitating client business are offset with counterparties. The Firm does not provide research, dispense advice or execute discretionary orders. The Firm does not engage in investment banking or underwriting.

IBUK maintains a highly liquid balance sheet and has established procedures for measuring funding requirements and monitoring its capital. IBUK has historically been profitable and maintains significant excess regulatory capital. The Firm relies on its own capital for regulatory and liquidity needs. However, as a subsidiary under the overall control of Interactive Brokers Group, Inc. ('IB Group' or 'Group') IBUK has access to additional liquidity and capital from the Group. The majority of the Firm's assets represent collateralised receivables from clearing houses for settlement of securities and derivative transactions and receivables from banks and counterparties.

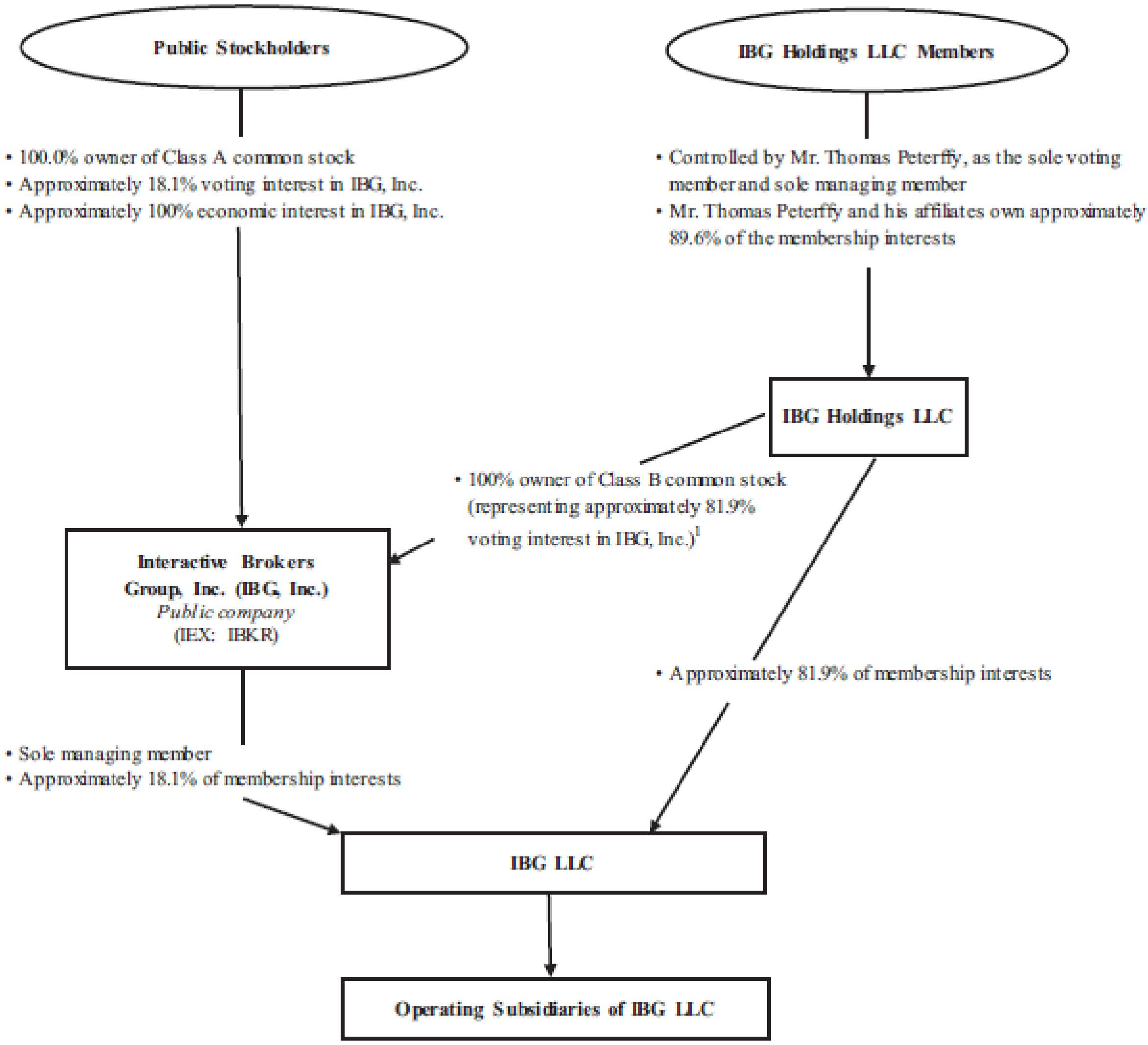
IBUK carries direct clients and holds client money and safe custody assets, which it protects in accordance with the FCA's CASS regulations.

Interactive Brokers Group Structure: Legal and Operational

IBUK is part of a global group of financial services companies that are under the common control of Interactive Brokers Group, Inc., a U.S. based firm ('IB Group'). IB Group is publicly listed in the U.S., under the symbol ICQ:IBKR. Public shares account for approximately 18.1% of the total ownership of the Group, and the remainder mainly held by the original owners of the business plus management and staff, many of whom have been with the Firm for more than ten years. This is illustrated in the diagram on the following page.

Headquartered in Greenwich, Connecticut, IB Group aims to provide an exceptionally inexpensive and versatile platform for clients to manage their finances through a range of regulated subsidiaries worldwide (including IBUK).

IB Group maintains a conservative capital structure with a low level of debt and a highly liquid balance sheet. The Group has grown largely organically and can trace its origins back over three decades. Since January 2008, IB Group capital has grown from approximately $2.3 to $7.2 billion at the end of 2018, with no long-term debt.


Public Stockholders
IBG Holdings LLC Members
• 100.0% owner of Class A common stock
• Approximately 18.1% voting interest in IBG, Inc.
• Approximately 100% economic interest in IBG, Inc.
• Controlled by Mr. Thomas Peterffy, as the sole voting member and sole managing member
• Mr. Thomas Peterffy and his affiliates own approximately 89.6% of the membership interests
IBG Holdings LLC
• 100% owner of Class B common stock (representing approximately 81.9% voting interest in IBG, Inc.)[1]
Interactive Brokers Group, Inc. (IBG, Inc.)
Public company
(IEX: IBKR)
• Approximately 81.9% of membership interests
• Sole managing member
• Approximately 18.1% of membership interests
IBG LLC
Operating Subsidiaries of IBG LLC

2. Risk Management Objectives and Policies

2.1. Governance Structure Overview

The Board of IBUK (the "Board") is the governing body for managing risk within the Firm, although a significant majority of Risk Management functions are centralised for the IB Group.

The following committees advise the Board:

- Nomination Committee, which assesses the performance and membership of the Board;
- Remuneration Committee, which is responsible for the framework of remuneration of IBUK employees;
- Risk Committee, which has oversight of the Firm's risk appetite and exposures; and

At a higher level, the risk management strategy for the Group is set by the Board of IB Group. The principal matters addressed by the IB Group Board are:

- To set the strategic direction for risk management within the Group;
- To set the control structure for the Group;
- To delegate authority to other Group entities; and
- To arrive at and communicate the risk appetite of the Group.

Members of Group management are accountable for the operation of the systems of internal control within the Group's core businesses.

The Group's governance structures for risk management are based on the three lines of defence model:

- Primary accountability for managing risk lies with the management teams within each business area;
- The second line of defence is provided by those specialist functions that undertake policy setting and monitoring and analysis roles, such as Compliance, Treasury, Finance and Financial Control; and
- The third line of defence is provided by Internal Audit, which has responsibility for providing independent assurance over the risk management process and the internal controls environment.

IBUK's own funds, liquidity and risk planning are integrated and IBUK Board members participate in Group level governance structures. The entire group, along with IBUK, follows the philosophy of being fiscally conservative and staying prepared for market dislocations. To this end, the Firm and the Group undertake only business projects that are well within their capital means.

2.2. Overall Risk Statement and Appetite

The Board of IBUK sets the overall level of risk that the Firm will accept. The level of risk is always subject to approval by the Group Board.

IBUK takes risks to earn revenue in the markets in which it operates, as with all companies. The Board believes that the correct approach to follow is that the only risks to which IBUK is exposed are ones that are fully understood and which are monitored to ensure that overexposure does not occur.

The approach of IBUK (and the IB Group) to risk management is to have procedures in place which embed risk management in the culture of the organisation, clearly identifying risk exposures and implementing processes, automated if possible, to minimise those risks.

2.3. Risk Assessment Approach

Risks are assessed by IBUK in terms of how likely they are to occur and the magnitude of the consequences if they were to happen. Having assessed the risks, the Firm selects one of the following approaches:

- Tolerate the risk - The ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit. In this instance, the only management action required is to monitor the risk to ensure that its likelihood or impact does not change.

- Mitigate the risk - The purpose of mitigation is not necessarily to terminate the risk but more importantly to contain the risk to an acceptable level.

- Terminate the risk - This involves decisive action to eliminate a risk altogether.

IBUK management believes that the establishment and operation of this policy has ensured that the level of risk across the business is acceptable.

It is important to note that both IBUK and the Group have a low tolerance for risk. IBUK and IB Group utilise the same internationally deployed real-time automated systems to monitor and curtail risks.

3. Capital Resources

3.1. Capital Management and Dividends

IBUK's policy is to use its earnings to fund growth. Historically no dividends have been paid out and there are no plans to start making dividend payments in the near future. This ability to use the Firm's earnings to fund its expansion and build its capital reserves, considered with the current level of earnings, allows management to feel a reasonable degree of confidence in the financial and capital strength of the business and its ability to withstand future shocks.

Notwithstanding the above, the Group is fully committed to providing additional capital for IBUK, if it is needed.

3.2. Own Funds and Regulatory Capital Requirements

	31 Dec 18 £'m	**31 Dec 17 £'m**
Shareholder's Equity Per Audited Financial Statements	106.2	89.6
Common Equity Tier 1 Capital	**106.2**	**89.6**
Tier 2 Capital	0.0	0.0
Total Regulatory Capital Resources/ Own Funds (CR)	**106.2**	**89.6**
Credit Risk Capital Requirement	4.7	6.6
Credit Valuation Adjustment Capital Requirement	0.3	0.6
Market Risk	0.6	0.3
Fixed Overhead Requirement	2.2	2.0
Total (Pillar 1) Capital Requirement (CRR)	**7.8**	**9.5**
Total Pillar 1 Risk Weighted Assets	**97.5**	**119.0**
Surplus CR over CRR	**98.4**	**80.1**
Total Own Funds Capital Ratio (%)	108.9%	75.3%

IBUK has adopted the standardised approach for Credit Risk (CRR, Articles 111-141 & 274) and the CVA (CRR Article 384). The Market Risk is calculated according to CRR Articles 325-377.

As an IFPRU investment firm, IBUK's Tier 1 Capital requirements are the greater of its base capital requirement of EUR730,000 or the sum of its Credit, Operational and Market Risk requirements.

3.3. Pillar 2 Risks

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 to in addition to those risks covered by Pillar 1. It also requires firms to consider the costs associated with winding down the firm and various stress scenarios.

Pillar 2 capital requirements are outside the scope of this disclosure document.

3.4. Internal Capital Adequacy Assessment Process (ICAAP)

The IBUK Board undertakes an internal assessment of capital requirements via the ICAAP and supporting stress tests at least annually. The ICAAP is the process of identification, measurement, management and monitoring of risks to the business the adequacy of internal capital. This was last approved by members of the Board in June 2018.

In addition the ICAAP is embedded in IBUK's risk management process and may be periodically updated throughout the year with regard to identified risks and with current financial data.

4. Principal Risks

IBUK's principal business activities result in exposure to the major risks described below.

The Board believes that the most significant risk faced is Credit Risk. The other risks noted below are likely to have a minimal impact on IBUK, either due to its business model or because of mitigating actions.

4.1. Credit Risk

Credit Risk for IBUK is the most significant risk on a day-to-day basis and so management of credit risk exposures is, therefore, a core process for IBUK and the Group. It comes in two main forms, (1) the extension of credit to customers (ie trading on margin), and (2) limited risk on receivables from counterparties. The former is managed principally by the establishment and operation of margining rules, and by the continuous automated monitoring of credit exposures. The latter is managed by the Firm's credit policies and procedures. More specifically, the risks IBUK captures under credit risk are:

- A bank will be unable to repay the monies deposited with it;

- A market counterparty through which the Firm hedges its exposures will be unable to settle the deals made through it or to repay the monies that it is holding on the Company's account;

- Deposits with a clearing house are frozen;

- A client, including an affiliate, is unable to make good a deficit on his account brought about by incurring losses at such a rate that the margin held on the account proves to be insufficient; or

- A major credit failure - which is considered by the Board to be the largest threat to the short-term future of the business, due to the potential size of a loss.

The assessment of the Board of IBUK of its credit risk exposure is that:

- The Group and IBUK's credit risk is diversified with the exception of banks and market counterparties, as well as affiliates, where credit risk is currently assessed as limited.

- Automated controls in place and margining policies set for individual clients ensure that credit risk is minimal, although limited exposure to a credit failure is accepted as unavoidable in such a business.

4.2. Market Risk

Market Risk within IBUK is tightly managed as the Firm does not take proprietary positions, although at any time it may carry a small amount, compared to its capital, of foreign exchange exposure. The most significant market risk therefore, would be if the hedging strategies adopted by the business to limit its exposure to fluctuations in market prices of the positions it holds prove to be flawed.

Currently, the Firm's exposure to market risk is minimal. The Firm does not hold proprietary positions in financial instruments, except for those arising through facilitating a client transaction.

For its Contract for Differences business, trades generated by IBUK's client base are automatically booked against a counterparty so that net exposures at IBUK are always flat. For its introducing agency broker business, where client assets are not held, the Firm is minimally exposed to changes in the values of financial instruments.

The area where IBUK is exposed to market risk is in its exposure to foreign currency risk. IBUK's exposure to fluctuations in the relative value of foreign currencies against sterling is minimal and arises from the fact that the Firm collects commissions and pays expenses in various currencies. To address this the Firm actively manages its foreign currency assets and liabilities to make sure they are in balance.

IBUK's assessment of its market risk exposure is that overall market risk is low due to the business model of the Company and the products offered.

4.3. Operational Risk

Operational Risk arises as a consequence of the way in which a Firm is run, both manually and systematically. The principal operational risks that IBUK is exposed to are:

- Financial Risk
- People Risk
- IT Risk
- Legal and Compliance Risk
- Settlement Failure Risk

Operational Risk is generally managed by establishing control processes. There are a number of such processes including management oversight used to curtail operational risks in the business. The Firm continuously monitors and improves its safeguards.

The Board believes that the establishment of relevant policies and consequent operation of controls has ensured that the level of risk across the business is acceptable, although they acknowledge that there is always scope to improve further the controls in existence.

4.4. Liquidity Risk

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

The level of liquidity risk that IBUK faces has been assessed as very low due to the excess capital available within the business.

Given the level of liquidity available the sources of any liquidity risk that IBUK may experience are:

- Settlements of securities and derivatives transactions.

- Margin requirements by the clearing houses and market counterparties.

- Redemptions of deposits by affiliated companies.

- Operating expenses, including charges from exchanges, payroll, rent and other similar expenses.

- Losses incurred by clients in excess of the equity they have placed with the firm.

Historically, liquidity has not been a constraint for IBUK and its management expects to maintain this profile for the foreseeable future.

As of 31 December 2018:

- The Firm's receivables are reviewed on a regular basis to ensure that all obligations are met on a timely manner. IBUK maintains a highly liquid balance sheet. The majority of assets mature in less than one month. Any past due receivables are reported to management immediately.

- IBUK's net fixed assets and other assets not readily realizable constitute less than 1% of its equity capital. The rest of firm's assets were considered liquid.

- For IB Group, which is similarly highly liquid, balance sheet categories which are not readily liquid comprised less than 1% of Group assets. The remaining roughly 99% of the Group's assets, or $60.5bn, was liquid.

In addition to its capital, IBUK has access to significant liquidity resources from the Group. These resources are comprised of material excess capital at other Group affiliates, uncommitted secured and unsecured bank lines and securities lending relationships.

IBUK's assessment of the liquidity risk it faces and how it is addressed is considered in the ICAAP. The Board assesses the Firm's exposure to liquidity risk as limited.

5. Remuneration Policy Disclosures

IBUK, as an FCA authorised and regulated IFPRU limited activity firm is subject to the FCA's rules on remuneration which located in the Systems and Controls (SYSC 19) of the FCA Handbook as well as Article 450 of the CRR. The Remuneration Code (the "Code") covers an employee's total remuneration, fixed and variable. IBUK incentivizes staff through a combination of the two.

Our policy is designed to ensure that we comply with the Code and IB Group's compensation arrangements:

- Are consistent with and promotes sound and effective risk management;
- Do not encourage excessive risk taking;
- Include measures to avoid conflicts of interest; and
- Are in line with IBUK's business strategy, objectives, values and long-term interests.

EU remuneration provisions and disclosures recognise that not all the Code's provisions apply to all firms equally and introduce a concept of proportionality relative to a firm's size, internal organisation and the nature, scope and complexity of their activities. The FCA has applied proportionality by categorizing firms into three levels. IBUK falls within the FCA's proportionality level three and this disclosure meets the requirements for level three firms.

5.1. Decision Making Process for Determining Remuneration Policy

IBUK's policy has been agreed by the IBG LLC's Remuneration/ Compensation Committee in line with the Code's principals set out by the FCA. IBUK applies an enterprise-wide approach to its remuneration policies and practices. IBUK's policy will be reviewed as part of the annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

IBUK's ability to pay bonuses is based on the performance of IBUK and IBG overall.

5.2. Code Staff Criteria

IBUK considers all employees who undertake Controlled Functions (as defined by the FCA) as Code Staff. As at 31 December 2018 the number of Code Staff was four.

5.3. Link between Pay and Performance

IBUK's remuneration policy links pay and performance to achieve effective risk management, avoid conflicts of interest and to align with IBUK's business strategy as follows:

- Employees are rewarded based on their contribution to the overall strategy of the business. Other factors such as performance, reliability, effectiveness of controls, as well as business development and departmental requirements in line with IBUK's long-term interests and objectives, are taken into account when assessing the performance of the senior staff.

- Employees are remunerated by the means of fixed pay, including pension and benefits, and variable remuneration which consists of an annual performance-related bonus.

- IBUK's key employees (including Code Staff) participate in the IB stock compensation plan which is a scheme introduced to align employee interests with shareholder interests over the long term. Employees are awarded stock units in IBUK's overall parent company, IBG Inc. (ticker symbol ICQ:IBKR). The stock units have various vesting provisions and generally convert to common stock over seven years. Such units are restricted from sale, transfer or assignment until the end of the restriction period.

5.4. Remuneration Cost for Code Staff

IBUK has decided for reasons of the proprietary nature of remuneration not disclose this information for its Code Staff, as permitted under CRR Article 432.