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AlterNet (UK) Limited

Pillar 3

The European Union Capital Requirements Regulation and Capital Requirements Directive IV ("CRD IV") requires consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel Capital Accords (Basel III) rules.

The CRD IV framework consists of three pillars:

1. Pillar 1 specifies the minimum amount of capital that a financial services firm is required to maintain to support its business;
2. Pillar 2 requires the firm to assess whether any additional capital should be maintained against any risks not adequately covered under Pillar 1; and
3. Pillar 3 specifies the disclosures which the firm is required to make about its capital, its risk exposures and its risk assessment.

SCOPE

ALU is an agency style broker (therefore does not take any principal positions). ALUK's regulatory classification is as a BIPRU (Prudential Sourcebook for Banks, Building Societies and Investment Firms) €730k limited license investment firm.

RISK MANAGEMENT OBJECTIVES AND POLICIES

ALUK adopts the risk management framework and related practices as implemented by the European Group of ITG Companies ("ITG") that is made up of ALUK, ITG Ventures Limited, Investment Technology Group Limited ("ITGL"), and ITG Software Solutions France.

ITGL is regulated by the Central Bank of Ireland for carry out activities in other member states of the European Economic Area under the Markets in Financial Instruments Directive.

All risk management practices describe herein are applied consistently across all regulated entities of those companies belonging to ITG.

The risk and other committees described herein are group wide committees that address the issues of each entity within the group of companies.

In order to ensure that all critical activities are being appropriately addressed and that ALUK is effectively managing uncertainty and preventing risks the firm has adopted the "three lines of defence" model. This model distinguishes among the three groups (or lines) involved in effective risk management with a function that own and manage risks, a second function that oversees risk and a third function that provide independent assurance and challenges the other two functions. Supporting this model is the firm's Risk Management Policy ("RMP"), Management of Risk Framework ("MoRF") and Risk Quantification Model ("RQM") that provide a systematic risk process for three lines to follow. Combined these documents and the processes and procedures described there-in ensure that the firm has an effective and robust response to risk and that risk related information is effectively and consistently obtained, analyzed and considered within the overall governance approach.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss or damage to ALUK resulting from inadequate or failed internal processes or systems, or from human error or external events that affect ALUK or its operational earnings. Strategic, Reputation, Legal & Compliance risks are all considered sub-categories of operational risk.

The Operational risk in ALUK relates predominantly to Human Resource risk. This is the risk that the ALUK will be unable to attract and retain qualified, experienced and talented employees. This risk is mitigated through robust human resource planning and management.

It is the policy of ALUK to reduce the frequency and impact of operational risk events in a cost-effective manner. This is accomplished by fostering a strong culture surrounding operational risk, which entails internal controls and quality management, leadership skills and well educated, qualified staff. ALUK 's main process for identifying and monitoring operational risk is managed by the risk manager through the implementation of the MoRF and the techniques, methodologies and practices described therein, including the annual and ongoing risk assessment process and recording of loss events.

Operational risk assessment is an on-going process with the primary objective of reducing the number of loss event occurrence, the magnitude of any loss event occurrence and generally improving the effectiveness of the control environment making the business more efficient. If as a consequence of these processes risks are identified to be outside acceptable limits, then internal controls and the quality and efficiency of the internal processes are re-evaluated to bring the risk back within acceptable risk limits.

The ITG risk manager holds a monthly ITG Operational Risk Committee attended by members of the management team. The meetings purpose is to review all matters related to Operational Risk, review instances of operational risk occurrences, agree mitigation processes and changes to the controls environment, ensure that events are followed through and provide a monthly operational risk report to the ITG Credit and Risk Committee and updates to ALUK senior management.

The following are covered by the ITG Operational Risk Committee:

- Review of all Trade Errors & Accommodations
- Technology & Product Risks
- Near Misses
- ESMA Automated Trading Guideline Compliance/Performance
- Back & Middle Office Events
- Operational Risk Events
- Market Surveillance Risk & Activities
- BCP/DR
- Capacity
- Planned High Risk Scheduled Events (awareness)
- Operational Risk Regulatory Environment
- Key Risk Indicator Performance

The ITG Risk Manager and Compliance Officer are responsible for providing guidance and support to the business segments. Together they act as a source of information on the development of operational risk. The ITG Risk Manager also tracks each business segment's operational risk through the Risk Database and if any segment should overstep the predefined risk boundaries, the head of the relevant segment will be notified as seen fit.

The ITG Risk Manager follows through until the risk has been eliminated or reduced to acceptable levels.

ALUK provides a limited product range, being equities trading and equities related software, which mitigates against normal financial service risk. Furthermore ALUK is part of a global network which it can use to source product, advice, funding, customer relationship, experience and departmental expertise. The ITG Risk Manager and

Compliance Officer works closely with each segment to ensure the successful identification and management of operational risk.

CREDIT RISK

In the first instance this risk relates to cash balances held with ALUK‘s bank and the risk that the bank fails. Cash balances are invested in short term bank deposits of A rated financial institutions with maturities of 30 days or less.

In the second instance the risk relates to counterparties defaulting on unsettled trades, this is currently largely mitigated through the use of CCP arrangements.

MARKET RISK

Market risk refers to the risk that the value of investments may decline due to changes in market variables, such as interest and currency exchange rates and equity and commodity prices.

ALUK does not engage in proprietary trading and as such does not have a trading book or hold any trading positions. The only market risk exposure for ALUK is due to the foreign currency balance which it may have and which would give rise to foreign currency exposure requirements. ALUK’s exposure to market risk is relatively insignificant; hence, ALUK does not hold any additional capital under Pillar 2 in relation to market risk.

LIQUIDITY RISK

Funding Liquidity risk is the current or prospective risk that ALUK, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost.

ALUK monitors unsettled trades on a daily basis through the CRR report. The report shows the number of trades outstanding by aging category, the market value of the trades, the original execution value of the trades and the exposure for each aging category. The CRR report shows an estimated value of regulatory capital required as a result.

ALUK‘s ultimate parent can provide additional capital if required.

As relates to funding contingency the entities only current source of additional funding is from within the group that is the ultimate parent and subsidiaries.

BUSINESS RISK

Business risk is defined as the potential loss in ALUK’s earnings due to adverse, unexpected changes in business volume, margins or both. Such losses can result from a serious deterioration of the market environment, customer shift, changes in the competitive landscape or internal restructuring.

Equally the risk is associated with not having a focus or primary objective which is not aligned with overall group objectives and the risk associated with management or staff not knowing what is expected of them and thus leave ALUK with no definitive strategy resulting in lower profits than budgeted or losses.

ITG operates a hierarchial reporting structure made up of Board of Directors, Executive Management, Senior Management, Middle Management and operatives.

Each employee has a direct undisputed reporting line.

The group has a clearly defined and articulated strategy and all employees are fully engaged in understanding the objectives of the strategy and their expected contribution.

Each manager assesses an employee’s performance annually to ensure objectives have been achieved. Employee objectives form a subset of the firm’s overall strategic objective. The executive management produce a business plan annually which sets out the strategy, goals and objectives for the forth coming twelve months. This business plan is assessed and approved/rejected by the Group Board of Directors. Actual results to budget are continuously reassessed throughout the year and management are held accountable for under performance. Furthermore reforecasted expectations are revised on a monthly basis by group management to give more accurate indication of annual performance.

MANAGEMENT OF THE ICAAP

ALUK takes the ICAAP into consideration in setting its policies and targets. Senior Management take the ICAAP and the policies approved, thereunder, into consideration when making decisions and implementing of the business objectives. Risk appetite and the Risk Management Policy forms part of the decision making process.

By its very nature the ICAAP is an evolving process, ALUK considers changes to and advancements in risk management best practices and methodologies with a view to incorporating them into the existing risk management framework and risk strategy. The ITG risk manager is responsible for keeping senior management abreast of relevant developments and how they can be adopted and deployed with a view to perpetually improving the capital adequacy process and overall risk management practices.

Proportionality is a key consideration of this process. Before the adoption of any new practices or changes to existing, they are considered in the context of the complexity and structure of the business model and environment.

CAPITAL RESOURCES

As an agency style broker with a BIPRU 730k limited license investment firm classification, ALUK's Pillar 1 capital requirement is calculated as the higher of the credit and market risk requirements, or the fixed overhead requirement ("FOR"). For ALUK, the FOR is the higher figure.

As at March 2017, ALUK's regulatory capital position is as follows:

	£'000
PILLAR I	**Mar-17**
Credit Risk	136
Fixed Overhead Requirement	286
Foreign Exchange Risk	11
Subtotal (A)	**432**
Minimum Base Capital (€730k) (B)	**625**
Total Capital Requirement (Higher of A&B)	**625**

Capital Resource	**£'000**
Share Capital	-
Retained earnings	63
Capital contribution reserve	1,500
	1,563

REMUNERATION

Due to ALUK's small number of employees (two employees), a disclosure of the remuneration paid even in aggregate would infringe on those employees' privacy not just vis-à-vis outside parties but, also in respect of employees within ITG or the affiliates of ITG outside of the European Union.