FxPro Financial Services Limited

Pillar 3 Disclosures 2017

Contents

1. About FxPro Financial Services LTD

FxPro Financial Services Limited (hereinafter referred to as 'FxPro' or the 'Firm') is an investment Firm incorporated in the Republic of Cyprus through the Department of Registrar of Companies and Official Receiver (http://www.mcit.gov.cy) (Certificate of Incorporation No. 181344). FxPro is authorised and regulated by the Cyprus Securities and Exchange Commission ('CySEC') (http://www.cysec.gov.cy) (Licence No. 078/07) and operates under the Markets in Financial Instruments Directive (EU Directive 2004/39/EC).

In accordance with the license granted by the CySEC, the principal activities of the Firm comprise the provision of investment services, including reception and transmission of orders in relation to one or more financial instruments, execution of orders on behalf of clients for the financial instrument of CFDs, dealing on own account for the financial instrument of CFDs, investment advice, foreign exchange services where these are connected to the provision of investment services, as well as granting credits/loans to investors to allow them to carry out transactions in the financial instruments of CFDs, when the Firm is involved in the transaction. Details of these services can be found in Annex I.

The Firm is an online financial services provider and acts as the principal and market maker to its customers in Contracts for Difference ("CFDs") on currency pairs, futures on indices, commodities and energy, as well as spot indices, shares and metals.

A detailed list of the financial products offered by the Firm is available online at the Firm's site (www.fxpro.com).

2. Regulatory Framework

The Pillar 3 disclosure is a requirement of CRD IV, consisting of the Capital Requirements Directive ('CRD' or 'Directive 2013/36/EU') and the Capital Requirements Regulations ('CRR' or 'Regulation (EU) No. 575/2013), which is effective from January 1st, 2014. The above has resulted to the respective amendments of the Investment Services and Activities and Regulated Markets Law (Law 144(1)/2007) and the implementation of the respective Regulations and the release of Directives DI144-2014-14, DI144-2014-15, for the purpose of harmonization with the actions of the European Directive.

The main aim of the above directives and regulations is to implement the main Basel III reforms across the EU. Pillar 3 requirements under CRD IV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. The current regulatory framework comprises of three pillars:

- **Pillar 1** (minimum capital requirements): sets out the requirements on calculating the minimum capital required for the Firm to be able to cover credit risk, market risk and operational risk.
- **Pillar 2** (supervisory review process 'SREP'): sets out a supervisory review process which assesses the internal capital adequacy processes ('ICAAP'), as to whether the Firm's Pillar I capital is adequate to meet those risk exposures and encourages the Firm to develop and use better risk management techniques.
- **Pillar 3** (market discipline): sets out the required disclosures to allow market participants, having a full picture of the risk profile of the Firm, to assess key information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Firm.

3. About the Report

As a Cyprus Investment Firm ('CIF'), FxPro is obliged, pursuant to Article 433 of Part Eight of the CRR to publish, at least on an annual basis, these disclosures.

The external auditors of FxPro, PWC provide limited level of assurance on the fair presentation of the disclosures annually as required by Paragraph 32(1) of Part II of DI2014-144-14 for the Prudential Supervision of Investment Firms.

The following Report is published pursuant to the above obligations as well as in accordance with the circulars issued by CySEC. It should be noted that any disclosures described herein apply to the Firm on a solo basis. The Report is available online at the Firm's site.

4. Interpretation of Terms

Unless indicated to the contrary, the defined terms included in this **'Pillar 3 Disclosures 2017'** (the 'Report' or **'**the Disclosure and Market Discipline Risk Management Report 2017') shall have a specific meaning and may be used in the singular or plural, as appropriate.

'Basic Indicator Approach' means the 'basic indicator approach' as defined by applicable legislation.

'Board of Directors' means the executive and non-executive directors of the Firm.

'Client' means the 'Client' as defined in the 'Client Agreement' available online at http://www.fxpro.com.

'FxPro Employee' means an individual who has entered into a contract with FxPro as a permanent employee (full-time and/or part-time basis). For the purposes of this Report, reference to an FxPro Employee shall also include an independent contractor, secondee or external consultant.

'Mark to Market' means valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

'Material Non-Public Information' means information that is not in the public domain and if disclosed such information could have an impact on the price of the security involved. If Material Non-public Information is disclosed to a reasonable investor this could determine his buying or selling behaviour. Material Non-public Information includes but is not limited to information regarding:

- changes in the control or management;
- mergers, acquisitions, tender offers and restructurings;
- client contracts;
- partner contracts;
- pending litigation;
- change in an issuer's credit rating by a rating agency;
- non-performing loans;
- imminent bankruptcy;
- changes in earnings and dividends (or estimates of same);
- securities' offerings;
- changes in operating or financial circumstances, for example cash-flow reductions, major write-offs, changes in accounting methods; and
- other developments that could reasonably affect the financial markets.

'Need-to-know' basis' means the basis on which confidential information is disclosed by an FxPro Employee to a recipient who requires such information in order to complete their duties and responsibilities. Justification of disclosing confidential information does not exist simply because the information is helpful to the recipient.

'Non-Public Information' means information that is not in the public domain and is only deemed to be public once such information is announced or disseminated to investors in general.

'Partners' means the natural and legal person(s) referred to online at http://www.fxpro.com/partners and http://www.fxpro.com/sponsorships.

'Standardised Approach' means the 'standardised approach' as defined by applicable legislation.

5. Risk Management Objectives and Policies

5.1. Risk Governance Framework

FxPro is committed to having corporate governance, risk management and a control framework appropriate to the size of its business. To achieve this, a comprehensive risk management framework for the identification, assessment, monitoring and control of risks has been implemented. The Board of Directors ('BoD') has the ultimate responsibility for the risk appetite of the Firm and the monitoring of risks on a regular basis. The BoD has reviewed, assessed and approved the adequacy of the risk management arrangements of the Company.

The BoD of FxPro Financial Services Ltd is assisted in their oversight function by permanent committees (collectively 'the Committees' and individually 'the Committee'), namely:

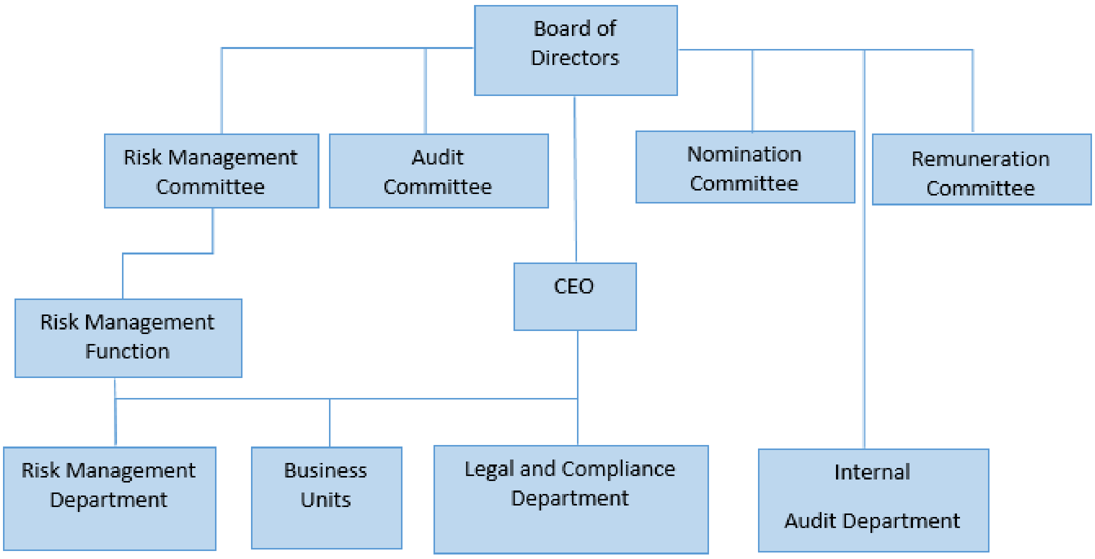
- the Audit Committee;
- the Risk Management Committee;
- the Nomination Committee; and
- the Remuneration Committee.

The Firm's BoD is satisfied that these arrangements are appropriate given the risk profile of the Firm.

5.2. Organisational Structure

The BoD is responsible for setting the Firm's strategic objectives, the tone for a risk aware culture and its appetite for risk. The internal Governance structure plays a significant role in the success of the risk management effort as it can promote accountability and transparency. It also defines the reporting lines and information flow within the Firm.

An overview of the Organisational Structure is outlined in the following chart:



5.3. Reporting and Information Flow

The Firm has established a risk-related informational flow to the BoD. Details of the major reports submitted to the board are presented in the table below:

Report Name	Report Description	Owner	Recipient	Frequency
Compliance Report	Annual Compliance review	Compliance Officer	BoD, CySEC	Annual
Internal Audit Report	Annual Internal Audit review	Internal Auditor	BoD, CySEC	Annual
Risk Management Report	Annual Risk Management report	Risk Manager	BoD, CySEC	Annual
Pillar III Report	Disclosures regarding the risk management, capital structure, capital adequacy and risk exposures of the Firm	Chief Financial Officer	BoD, CySEC, Public	Annual
Financial Statements	Audited financial statements of the Firm	Chief Financial Officer	BoD, CySEC	Annual
ICAAP Report	Assessment of the level of capital that adequately supports all relevant current and future risks of our business	Risk Manager / Chief Financial Officer	BoD, CySEC	Annual
Capital Adequacy Report	Capital requirement calculation	Chief Financial Officer	Senior Management, CySEC	Quarterly

5.4. Risk Management Committee

The primary objective of the Committee is to oversee the overall management of all Risks. It also has the responsibility to review, recommend and implement the risk management policies, set the risk tolerance limits and ensure that infrastructure, resources and systems are in place for proper risk management.

The Committee comprises of three (3) non-executive directors. During 2017 the Committee held seven (7) meetings.

The Risk Management Committee:

- Establishes a Risk Management Policy and other relevant procedures governing the control of the risks arising within FxPro and recommends, if required, amendments;
- Reviews, modify and oversee the application of risk controls;
- Ensures the appropriate human and system resources are in place;
- Sets and monitors risk limits and other mitigation measures;
- Collects information of risk exposures and risk events occurred across the Firm;
- Evaluates the adequacy and effectiveness of controls in place for managing the Risks; and
- Adopts remedial action.

The Risk Management Committee, establishes the required parameters and applicable market risk limits and the Dealing Department monitors the positions of the proprietary book to ensure that FxPro's exposure to market risk is within the defined limits.

5.5. Risk Appetite

The risk appetite defines the amount and type of risk that the Firm is able and willing to accept in pursuing its business objectives. These risks include, among others, credit risk, market risk, operational risk, reputational risk and compliance risk. The risks and controls around them and the risk appetite set by the BoD for each risk, are set out in the sections further below.

5.6. Number of Directorships held by members of the Board

No	Name	Number of directorships[1] (including FxPro Financial Services)
1	Charalambos Psimolophitis	1
2	Lenas Thoma	2
3	Nicos Hadjinicolaou[2]	1
4	Adonis Yiangou[2]	4
5	Cleopatra Kitti[2]	2

1. Directorships held within the same group are considered as 1 directorship.
2. Non- Executive Director

5.7. Recruitment policy for the selection of members of the Board of Directors

The members of the BoD are responsible to identify, evaluate and select candidates for the BoD. The persons proposed for appointment to the BoD must have specific skills and sufficient knowledge to perform their duties. It is also essential that they will be able to devote the necessary time and effort to fulfil their respective responsibilities. The nomination committee assists the BoD in filling any vacant positions taking into consideration the current composition, size and performance of the Board.

5.8. Diversity Policy

The Firm recognises the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. Diversity is taken into consideration in determining the optimum composition of the BoD. At year-end 2017 one female director was member of the Board (20%).

6. Capital Risk

6.1. Overview

Capital risk is defined as the risk that the Firm has a sub-optimal amount of capital to fulfil its capital requirements.

The objectives of FxPro when managing its capital are:

- safeguarding the Firm's ability to continue as a going concern;
- maintaining an optimal capital structure in order to reduce the cost of capital; and
- ensuring sufficient capital is available to meet the usual business activities and any unforeseen contingencies.

The legal and regulatory framework under which FxPro operates, stipulates that, the Firm must maintain a minimum capital adequacy ratio of 8%. The method of calculation is determined by CySEC based on the international capital standards set out in Basel III. On a quarterly basis, FxPro reports to CySEC its capital adequacy ratio as described by the applicable directive.

In addition to the common equity tier 1 capital maintained to meet the own funds requirement imposed by Article 92 of the regulation, FxPro is required to maintain a capital conservation buffer (CCB). CCB will be applied gradually as per the table below:

Period	%
1/7/2016-31/12/2016	0,625
1/1/2017-31/12/2017	1,25
1/1/2018-31/12/2018	1,875
From 1/1/2019 and onwards	2,5

FxPro is also subject to the countercyclical buffer, which was currently set at zero (0) per cent.

The capital adequacy ratio per quarter for 2017 is presented in the table below:

Quarter	Capital Adequacy Ratio
Q1 2017	11.09%
Q2 2017	9.69%
Q3 2017	19.05%
Q4 2017	10.64%

The Firm's total capital resources and total capital requirements as at 31 December 2017 are shown in the table below. The Firm's Capital Resources consist of Tier 1 Capital only.

Capital Resources Summary	
	('000) US$
Own Funds (Tier 1 Capital)	
Share Capital	3,126
Audited Reserves	58,440
Other Reserves	748
Deductions from Common Equity Tier 1 Capital	
Intangible Assets	(574)
Deductions to CET1 Capital	(227)
Total Eligible Own Funds (Tier 1 Capital)	**61,513**
Capital Requirements	
Credit and Counterparty risks	6,779
Market Risk (Position, Foreign Exchange and Commodity Risk)	27,758
Operational Risk	11,703
Total Capital Requirements	**46,240**
Total Capital Adequacy Ratio (regulatory minimum 9,25%)	**10,64%**

In order to manage its capital risk, FxPro monitors, constantly, its capital adequacy ratio to ensure that this remains, at all times, at a level well above the regulatory limit. The Firm uses forecasts to assess its capital position, based on its operating plan, so as to ensure that no capital deficiencies will arise and accumulates additional capital through the accumulation of profits over time.

Reconciliation of regulatory capital, with Equity per the Firm's Financial Statements

The following table provides the reconciliation of own funds to the audited Financial Statements as at 31 December 2017. The intangible assets that are deducted from Tier 1 capital relate primarily to trademarks and computer software.

Reconciliation of regulatory capital, with Equity per Firm's Financial Statement	
	('000) US$
Total equity per Firm's Financial Statements	62,314
Intangible Assets	(574)
Balances with Investors' Compensation Fund	(227)
Total Eligible Own Funds (Tier 1 capital)	**61,513**

6.2. Internal assessment of capital requirement

An Internal assessment of capital requirements (ICAAP) is conducted. The results of the assessment are used to calculate the amount of any risk-based capital resources requirement (Pillar II) in addition to the Pillar I requirements.

6.3. Leverage Ratio

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

As at 31 December 2017, the leverage ratio of the Firm was equal to 47.46%, well above the 3% minimum ratio set by the Basel Committee.

Summary reconciliation of accounting assets and leverage ratio exposures as at 31 December 2017	
	('000) US$
Total assets as per published financial statements	**68,503**
Adjustments for derivative financial instruments	61,256
Intangible assets	(574)
Balances with Investors' Compensation Fund	(227)
Other adjustments	430
Leverage ratio exposure	**129,387**
Tier 1 Capital	61,513
Leverage Ratio	**47.46%**

The table below provides a breakdown of the exposure measure by exposure type:

On-balance sheet exposures (excluding derivatives and securities financing transactions "SFTs") as at 31 December 2017	
	('000) US$
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	68,933
(Asset amounts deducted in determining Tier 1 capital)	(801)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**68,132**
Derivative exposures	
Replacement cost associated with all derivatives transactions	32,691
Add-on amounts for PFE associated with all derivatives transactions	28,564
Exposure determined under Original Exposure Method	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
(Exempted CCP leg of client-cleared trade exposures)	-
Adjusted effective notional amount of written credit derivatives	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
Total derivatives exposures	**61,256**
SFT Exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
Counterparty credit risk exposure for SFT assets	-
Derogation for SFTs: Counterparty credit risk exposure	-
Agent transaction exposures	-
(Exempted CCP leg of client-cleared SFT exposure)	-
Total securities financing transaction exposures	**-**
Other Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	-
(Adjustments for conversion to credit equivalent amounts)	-
Other off-balance sheet exposures	**-**

Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-
Capital and total exposure measure	
Tier 1 capital	**61,513**
Leverage ratio total exposure measure	**129,614**
Leverage ratio	
Leverage ratio	**47.46%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	-
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

The table below provides a breakdown of total on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class:

Split-up of on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**68,132**
Trading book exposures	**-**
Banking book exposures, of which	**68,132**
Covered bonds	**-**
Exposures treated as sovereigns	**-**
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
Institutions	39,543
Secured by mortgages of immovable properties	-
Retail exposures	1,465
Corporate	18,962
Exposures in default	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	8,161

7. Market Risk

7.1. Overview

Market risk is the risk that changes in market prices will affect the Firm's income or the value of the Firm's financial instruments.

FxPro is exposed to market risk that arises from fluctuations in the market price of foreign currencies, commodities, indices, precious metals, commodities and equity securities due to the open positions on CFDs in the underlying instruments.

Market risk also includes foreign exchange risk which arises from non CFD recognised assets and liabilities held in a currency other that the Firm's functional currency (US$).

The Firm's exposure to market price and foreign exchange risk at any point in time depends primarily on short-term market conditions and client activities during the trading day. FxPro acts, at all times, as the principal to the Clients' trades. The Firm does not take proprietary positions based on an expectation of market movements.

FxPro follows the Standardised Approach for Market Risk. Market Risk Capital requirements are calculated with respect to Foreign Exchange Risk, Commodities Risk and Equity Risk.

The market risk capital requirements of the Firm as of 31 December 2017, were as follows:

Analysis of market risk capital requirements as at 31 December 2017		
		('000) US$
Type of Market Risk	**RWA Total**	**Capital Requirements**
Equity Risk	27,731	2,218
Foreign Exchange	258,757	20,701
Commodities	60,488	4,839
Total	**346,976**	**27,758**

7.2. Market risk mitigation

The operating model adopted by the Firm, in conjunction with the risk management framework in place, means that not all client exposures are hedged, hence the Firm may have a residual net position in any of the CFDs it offers up to the pre-set market risk limits.

To manage its market price risk, a formal risk policy approved by the Board of Directors is in place, which includes limits, or a methodology for setting limits, for every single financial market which the Firm trades, as well as certain groups of markets and groups of financial instruments. These limits determine the net exposure arising from client activity and hedging which the Firm is prepared to carry.

The Risk Management Function monitors in real time the Firm's exposure against these limits. If the Firm's exposure exceeds these limits, the policy requires that sufficient hedging is carried out to bring the exposure back within the defined limits or, if the market is closed, as soon as it re-opens.

The Firm maintains trading (hedging) accounts with other regulated financial institutions for engaging in hedging activities in financial instruments when a need to hedge arises.

8. Credit Risk

8.1. Overview

Credit risk (including counterparty credit risk) is the risk of loss that FxPro may incur if the Firm's counterparty in a transaction fails to perform its contractual obligations; which would result in a financial loss for the Firm.

Credit risk arises from the Firm's deposits with financial institutions (including banking institutions and amounts held with brokers) as well as outstanding receivables. FxPro follows the Standardised Approach for Credit Risk.

Counterparty credit risk arises from credit exposures arising from open trading positions. Counterparty credit risk is measured using the mark-to-market method. According to this method, the current replacement cost of all derivatives with positive amounts is calculated and an add-on is applied to this amount for potential future credit exposure, based on specific factors that depend on the type of the transaction and its duration.

The table below presents the total amount of credit exposures by exposure class and by Geographic distribution as at 31 December 2017.

Credit exposures per asset class by region before Credit Risk Mitigation as at 31 December 2017					
					('000) US$
Regulatory Exposure Asset Class	**Europe**	**Asia**	**Rest of the World**	**Exposure Total**	**RWA Total**
Corporates	18,101	20	841	18,962	18,962
Retail	21,964	18,882	21,872	62,718	47,040
Other items	8,736	-	-	8,736	5,671
Institutions	39,543	-	-	39,543	13,062
Public sector entities	227	-	-	227	-
Total	**88,571**	**18,902**	**22,713**	**130,186**	**84,735**

Exposures by residual maturity as at 31 December 2017	Up to 3 months	More than 3 months	Total
	('000) US$	('000) US$	('000) US$
Corporates	3,771	15,191	18,962
Retail	62,720	-	62,720
Other items	4,504	4,232	8,736
Institutions	39,543	-	39,543
Public sector entities	227	-	227
Total	**110,766**	**9,423**	**130,189**

External Credit Assessment Institutions (ECAIs) used for calculating Risk-weighted Assets under the Standardised Approach

For the purposes of applying the Standardised Approach, the Firm uses Moody's external credit ratings. Exposures which do not have an available Moody's credit rating are considered to be unrated. The ECAIs are not taken into account when relevant exceptions as per the CRR apply.

It should be noted that the Firm does not transfer issuer risk arising in the trading book to the Banking Book, as all exposures are either rated directly or the country of incorporation in which an exposure is incorporated is used.

The analysis of the exposure values before and after credit risk mitigation as well as the credit exposure amount by Exposure Class are shown on the tables below.

Exposures before and after Credit Risk Mitigation as at 31 December 2017	
	('000) US$
Credit Quality Step *	**Institutions**
1	14,072
2	17,406
3	-
4	-
5	-
6	4,869
Unrated*	3,196
Total	**39,543**

*Relates to balances held with FCA regulated financial institutions

Please refer to table below for the Mapping of Ratings to Credit Quality Step.

ECAI Association with each credit quality step					
		Institutions Risk Weight			
Credit Quality Step	**Moody's Rating**	**Residual Maturity up to 3 months**	**Residual Maturity more than 3 months**	**Sovereigns Risk Weight**	**Corporate Risk Weight**
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 or lower	150%	150%	150%	150%

8.2. Credit risk mitigation

In order to manage its credit risk, the Firm accepts as a counterparty, for the purposes of depositing both own and Client funds, only European investment grade financial institutions and local financial institutions.

To diversify its exposure, FxPro holds most of its own funds as well as client funds with European based investment grade banking institutions. Client funds, which are held in segregated accounts in a fiduciary capacity, as well as own funds are distributed across deposit institutions. The credit standing of current banking counterparties is constantly monitored for early signs of stress or deterioration of their financial position.

With respect to client funds specifically, the Firm makes all necessary arrangements so as to safeguard the clients' ownership rights and to prevent the use of a client funds for its own account. In addition, any client funds that are in transit (held with payment service providers), are placed under client funds from the Firm's own funds to mitigate any residual risk.

Before any trading activity takes place, client accounts must first be funded and enough equity for the margin requirements must be available. The Firm has established minimum margin levels below which all positions are automatically closed at market prices in order to prevent the account from going into deficit. Automated processes are in place in each trading platform that monitor Client Margin level and automatically begin closing positions at market price when levels fall below the corresponding Stop Out limit.

8.3. 'Past due' and 'Impaired' Receivables

A provision for impairment of trade and other current receivables is established when there is objective evidence that the Firm will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and/or insolvency or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a trade or other current receivable is uncollectible, it is written off against the allowance account for trade and other current receivables.

A financial asset is 'past due' when a counterparty fails to make a payment that is contractually due.

The Firm did not have any 'past due' or 'impaired' assets during or as at 31 December 2017. This is ordinary since, as FxPro holds clients' funds in a fiduciary capacity before any trades are executed, combined with the provision of negative balance protection where clients cannot lose more than the funds they have at risk with FxPro, the risk of default on outstanding receivables is very low.

9. Operational Risk

9.1. Overview

FxPro is exposed to operational risk resulting from inadequate or failed internal processes and procedures, people and systems, or from external factors. Operational risk is measured using the Basic Indicator Approach. As at 31 December 2017 the operational risk capital requirements were US$11,703,000.

The main groups of Operational risk the Firm faces are as follows:

- Technological, Systems and Data;
- Fraud (Internal or External);
- Legal and Compliance;
- Strategic Risk; and
- Reputational Risk.

9.2. Mitigation of Operational risk

A strong internal control governance framework is designed and implemented. The Firm has a four-eye structure and Board oversight. This structure ensures the separation of power and authority regarding vital functions of the Firm. The Audit Committee assesses the adequacy and effectiveness of internal systems and controls, based on data and information produced by the internal and external auditors or other competent authorities.

Each department documents risk related data on the list of identified operational risks. The mitigating measures and controls as well as the estimated residual risk is evaluated by the Risk Management Function.

9.3. Technological, Systems and Data

The Firm's systems are evaluated, maintained and upgraded continuously. Data recovery programs and backup systems ensure continuity in the Firm's core operations.

The Firm mitigates any risk from failure of third party providers such as data suppliers, market information, telephone and internet access by ensuring it has multiple providers for each service.

A Disaster Recovery Plan and a Business Continuity Plan (BCP) is in place such that:

- Key personnel and management can physically relocate and carry out business, as normal;
- The BCP centre is appropriately equipped in order for FxPro to maintain its competitive advantage and systems integrity, including but not limited to internet connectivity from multiple service providers;
- The Business Continuity Centre (BCC) is equipped with a fast, secure and stable telephony and network connectivity and has extended provisions for power supply to prevent loss of services during any power outages; and
- A Disaster Recovery Plan that details the recovery process of the IT infrastructure in the event of a disaster has been developed, documented and frequently tested.

9.4. Fraud

Regular internal audit reviews are performed to ensure that employees comply with the Firm's internal procedures. An Anti-fraud policy facilitates the development of controls for the prevention and detection of fraud against the Firm.

9.5. Legal and Compliance

In-house corporate lawyers are employed on a full-time basis that prepare any contractual agreements and other documentation prone to legal risk. Third party legal experts are employed on a contract basis as needed internationally. All written material, such as marketing and other published form of communication is reviewed by the Legal and Compliance department before is released.

The Compliance department is responsible for the Firm's compliance with the applicable laws and regulations. The department has drafted policies based on the requirement of relevant Laws and Directives and updates them as necessary. These Policies are assessed regularly by the Internal Audit department.

FxPro has appointed a Money Laundering Compliance/Reporting Officer ("MLRO") who acts as the central point of contact both with the law enforcement agencies and internally, in relation to all matters relating to money laundering.

9.6. Strategic Risk

FxPro is exposed to strategic risk that could result due to poor strategic business decisions taken and implemented by the Firm. Strategic risk can also be a result of changes in the sector the Firm operates in or the business environment in general.

The Firm assesses, as often as required, the Firm's strategic direction taking into account its objectives and updates the Firm's budget accordingly. The Board approval is required for any projects that might have an impact to the Firm's short and long term-business plans. The Board is updated on milestones and other goals achieved/ not achieved so that actual results can be measured in comparison to forecasts.

9.7. Reputational Risk

FxPro is exposed to reputational risk that arises due to a number of factors including but not limited to negative publicity, pending or concluded litigation, poor performance or any legal or regulatory violations.

To mitigate this risk, the Firm ensures that all regulatory requirements are adhered to and emphasises the importance of proper risk management across the organization. The Internal Audit and Compliance departments ensure that the policies and procedures are enforced at all times.

10. Exposure to Interest Rate Risk

The Firm has no material interest risk exposure to positions not included in the trading book.

11. Liquidity Risk

11.1. Overview

Liquidity risk is the risk that the Firm will not be able to meet its financial obligations and arises when the maturity of assets and liabilities does not match.

The Firm has robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra – day, so as to ensure that they maintain adequate levels of liquidity buffers; tailored to the business lines, foreign currencies and other traded financial instruments, which includes adequate allocation mechanisms of liquidity costs, benefits and risks. The Firm has no long-term debt.

11.2. Risk Management Process

In order to manage its liquidity risk, the Chief Financial Officer of FxPro, the Board as a whole and the Risk Management Committee monitor rolling forecasts of the Firm's liquidity requirements based on expected cash flows in order to ensure that the Firm has sufficient cash to meet its operational needs, under normal and abnormal (stressed) market conditions.

The Firm ensures that sufficient cash is available on demand to meet any operational expenses that arise. An internal system is available for monitoring in real time liabilities due to client trading activity. No client funds are used to fund broker margin requirements or any other financial obligations.

12. Remuneration Policy and Practices

12.1. The Remuneration Committee

The Remuneration Committee assists the BoD in implementing the Firm's remuneration programme for those categories of staff whose professional activities have a material impact on the Firm's risk profile. The Remuneration Committee is comprised of the two independent non-executive directors and meets at least annually.

Approval of benefits and other remuneration changes

The Remuneration Committee defines the scope of any performance related pay schemes and determines any benefits under the remuneration program ensuring that the remuneration structure is appropriate and does not in any way create a potential conflict of interest either between the Firm and the employees or the Firm vis a vis its clients.

Reporting to the Board

The Remuneration Committee's chairman reports formally to the Board on its proceedings after each meeting on all matters. The Remuneration Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Performance Review

The Remuneration Committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

Performance based bonus scheme

FxPro operates a discretionary semi-annual bonus scheme to recognise an employee's contribution to the success of the Firm. Participation to the scheme is subject to certain conditions set in this section of the Report and also in the 'FxPro Employee Handbook' in more detail. Variable remuneration/bonus is the additional remuneration which is paid to an individual in addition to his/her basic salary.

The bonus year runs from January 1 until December 31; given that the scheme is semi-annual, January 1 - June 30 and July 1 - December 31 are collectively defined as the bonus terms.

12.2. Fees and Emoluments

Fees and emoluments of members of the Board of Directors and other key management personnel

The remuneration of the personnel of the Firm for 2017, which includes salaries and other short-term benefits as well as employer's contributions for social insurance etc., is analysed as follows:

Fees and emoluments of members of the Board of Directors and other key management personnel		
		('000) USD
	Emoluments	**Number**
Executive Members of the Board	437	2
Non-Executive Members of the Board	99	3
Other key management personnel	1,204	8
Total	**1,740**	**13**

For the year 2017, the Firm did not offer variable remuneration to people whose professional activities had a material impact on the risk profile of the Firm, as defined by Article 94(l)(g) of Directive 2013/36/EU.

13. Annex I

13.1. Investment and Ancillary services

	Investment services and activities								Ancillary services						
	1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
1	√	-	-	√	√	-	-	-	-	√	-	√	√	-	-
2	√	-	-	√	√	-	-	-	-	√	-	-	√	-	-
3	√	-	-	√	√	-	-	-	-	√	-	-	√	-	-
4	√	√	√	√	√	-	-	-	-	√	-	-	√	-	-
5	√	√	√	√	√	-	-	-	-	√	-	-	√	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-	√	-	-
7	-	-	-	-	-	-	-	-	-	-	-	-	√	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	√	-	-
9	√	√	√	√	√	-	-	-	-	√	-	-	√	-	-
10	-	-	-	-	-	-	-	-	-	-	-	-	√	-	-

Investment Services and Activities

1. Reception and transmission of orders in relation to one or more financial instruments.
2. Execution of orders on behalf of Clients.
3. Dealing on own account.
4. Portfolio management.
5. Investment advice.
6. Underwriting of financial instruments and/or placing of financial instruments on a Firm commitment basis.
7. Placing of financial instruments without a Firm commitment basis.
8. Operation of Multilateral Trading Facility.

Ancillary Services

1. Safekeeping and administration of financial instruments for the account of Clients, including custodianship and related services such as cash/collateral management.
2. Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the Firm granting the credit or loan is involved in the transaction.
3. Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings.
4. Foreign exchange services where these are connected to the provision of investment services.
5. Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.
6. Services related to underwriting.
7. Investment services and activities as well as ancillary services of the type included under Parts I and II (Third Annex) of the Law 144(I)/ 2007 related to the underlying of the derivatives included under paragraphs 5, 6, 7 and 10 of Part III where these are connected to the provision of investment or ancillary services.

Financial instruments

1. Transferable securities.
2. Money-market instruments.
3. Units in collective investment undertakings.
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF.
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls.
8. Derivative instruments for the transfer of credit risk.
9. Financial contracts for differences.
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.