

PRIORFX Limited

Regulated by the Cyprus Securities and Exchange Commission
License № CIF 221/13

**PILLAR III
DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

.....
Mr. Konstantin Yasnov, Executive Director

May 2017

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General

This report has been prepared in accordance with the requirements of the Directive DI144-2007-05 (“Directive”) of CySEC for the Capital requirements of Investment Firms (“the Directive”). The Directive implements the European Union’s Capital Requirements Directive (“CRD”). The said Directive is based on three pillars:

1. Pillar I has to do with the standards that set out the minimum regulatory capital requirements
2. Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes.
3. Pillar III covers transparency and relates to the obligation of investment firms to publicly disclose information with respect to their risks, their capital and the risk management structures, policies and procedures they have in place.

PriorFX Ltd (herewith ‘PriorFX’ or the ‘Company’) has an obligation to publicly disclose information relating to the risk management objectives and policies as well as information regarding the capital adequacy requirements. Figures included in this document, are in accordance with the audited financial results of 2016. The information is disclosed only for the purpose of complying with the directive requirements and not for any other reason or use.

The Company makes this report available publicly on its website annually. This report relates to the year ended 31/12/2016 (The “Reporting reference date”), and to the Pillar III of the said Directive.

Any information not contained in this report was either not applicable based on the Company’s business and activities, or such information is considered as proprietary to the Company. Sharing such information with the public would possibly undermine the Company’s competitive position. The Directive provides that the Company may omit one or more of the disclosures if it believes that the information is immaterial. Where the Company has considered a disclosure to be immaterial, this was not included in this document.

PRIORFX Limited (hereafter the “Company”) is regulated by the Cyprus Securities and Exchange Commission (hereafter “CySEC”) and permitted since December 2013 to operate as a Cyprus Investment Firm under the license number 221/13. This license authorized the Company to provide investment services of “Execution of orders on behalf of clients”. It was activated in February 2014 when the Company started to act as STP Broker, and extended in August 2014 to “Portfolio Management” (activated in November 2014). In particular, the investment and ancillary services that the Company is authorized to provide are the following:

Investment Services:

- a) Execution of orders on behalf of clients;
- b) Portfolio Management.

Ancillary Services:

- a) Safekeeping and administration of financial instruments, including custodianship and related services;
- b) Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
- c) Foreign exchange services where these are connected to the provision of investment services.

Policies and Objectives

Risk and internal capital management are fundamental to the business of PriorFX Limited, representing an essential element of its operations. One of its major goals is the achievement of the Company’s growth constantly through monitoring the related risks and improving stability of its operations by identifying and reacting to all types of risks on a timely basis. The purpose of managing risks is the prompt identification of any potential problems before they occur.

PriorFX considers maintaining of adequate capital levels as a key factor helping to counter the potential risks and not only as its legislative obligation. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order

to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital.

Risk Management Framework

The Company is exposed to a variety of risks referred to below in this present report. The Company actively manages the risks it is exposed with the involvement of a series of functions within, so as to protect both investor and company interests.

From the level of Board of Directors & Senior Management, and their relevant Risk Management Committee, to the independent Internal Audit function, and down to the additional defense line of the Risk Management function, the Company identifies, assesses, manages and monitors risks taking into account the nature, scale and complexity of the activities undertaken in the course of business.

Board of Directors is ultimately responsible for overlooking and directing the operations of the Company and approve objectives and strategic directions, as detailed in the Company's approved Internal Operations Manual (the "IOM"), as well as it is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles, identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Risk Management Committee is composed as required by members of the Company's control functions, Senior Management and Board of Directors, to oversee the overall risk management system in place and direct key risk management related decisions, as detailed in the Company's IOM.

The Risk Management Committee is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment services to Clients, as well as the risks underlying the operation of the Company, in general. It has assisted the Company to adopt and maintain risk management policies, which identify the risks relating to the Company's activities, processes and systems and set the risk tolerance levels of the Company. The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of such risk management policies and procedures that are in place, the level of compliance by the Company

and its personnel with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect with those policies and procedures that are in place, including failures by the Company's personnel to comply with those policies and procedures.

The Risk Management Committee meets regularly, at least quarterly, unless the circumstances require extraordinary meetings or consultations. The decisions of the Risk Management Committee with respect to any of its responsibilities were presented to the relevant employees of the Company orally or in writing. The Risk Management Committee and the Risk Manager are reporting directly to the Senior Management and the Board of Directors.

In 2016 The Company continued to have in-house RM - Mr. Konstantin Yasnov, Executive Director. This decision was made taking into account the scope and complexity of the Company operations.

According to the Company's IOM the Risk Manager must ensure that all the different types of risks taken by the Company are in compliance with the Law and the obligations of the Company under the Law, and that all the necessary procedures, relating to risk management are in place. The Risk Manager examines the financial results of the Company and analyses the market trends from a risk management perspective; monitors the capital adequacy and the exposures of the Company; define acceptable maximum risk assumption limits per class of risk; sets and reviews Client and counterparty limits (all limits are reviewed on a regular basis and are effective in respect of investment activities).

Compliance Function is covered by the necessary expertise and follows the required processes as detailed in the Company's IOM.

The Accounting Department is responsible for the day-to-day recording of all financial information, control of all receipts and payments, internal management reporting and external financial reporting. The Accounting Department is also responsible for the management accounts which are feeding into the Capital Adequacy requirements monitoring.

Risk management processes are audited by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

The Company has designed its risk management structure to be proportionate to the scale, nature and complexity of the business.

Capital Adequacy and Capital Management

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee as adopted by the Cyprus Securities and Exchange Commission. Basel II consists of three pillars: (I) minimum capital requirements, (II) supervisory review process and (III) market discipline.

Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and Fixed Overheads approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions, the risk weight also depends on the term of the exposure (more favourable risk weights apply where the exposure is under three months). The categories of exposures the Company is exposed to with regards to credit risk are deposits with banks, other assets and fixed assets.

The Standardised measurement method for the capital requirement for market risk adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement. The main sources of foreign exchange risk for the Company are certain bank and broker accounts balances in foreign currencies and exposures in foreign currencies from fees receivables.

For operational risk, Fixed Overheads are calculated to be used in the risk weighted assets calculation.

Pillar II – The Supervisory Review Process (SRP)

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such

as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

Pillar III – Market discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds. In addition, the results and conclusions of ICAAP shall be disclosed. The Company prepared basic outlines of its ICAAP in 2016 and committed to finalize it in Q3 of 2017 taking into account the results of 2016 and of the first half of 2017.

Capital Management

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Cyprus Securities and Exchange Commission requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

During 2016 the Company had fully complied with all externally imposed capital requirements as shown in the table below.

REGULATORY OWN FUNDS AND CAPITAL ADEQUACY RATIO

ID	Label	Amount in thousands
1	OWN FUNDS	
1.1	COMMON EQUITY TIER 1 CAPITAL	1,427
1.2	ADDITIONAL TIER 1 CAPITAL	0
1.3	TIER 1 CAPITAL	1,427
1.4	TIER 2 CAPITAL	0
1.5	TOTAL OWN FUNDS	1,427
1.6	TOTAL ELIGIBLE CAPITAL (Notes 1 & 2)	1,427
2	RISK WEIGHTED EXPOSURES	
2.1	RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	3,031
2.2	TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY	0
2.3	TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	1,026
2.4	TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	0
2.5	ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	356
2.6	TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	0
2.7	TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	0
2.8	OTHER RISK EXPOSURE AMOUNTS	0
2.9	TOTAL RISK EXPOSURE AMOUNT	4,413
3.1	CET1 Capital ratio	32.34%
3.2	T1 Capital ratio	32.34%
3.3	Total capital ratio	32.34%

Under the Directive, Own Funds consist mainly of paid up share capital, retained earnings less any proposed dividends, translation differences and audited current year profits and losses.

During the reporting period, there has been no violation of limits for one loan granted to the Client.

Company Own Funds - Capital base

The composition of the capital base of the Company as of end of year was as follows:
As at the Reporting reference date:

Capital (Original Own Funds): Tier 1 (none of Tier 2)	‘EUR 000
Share Capital	1
Share Premium	2,724
Reserves (Retained Earnings)	(1,242)
Total Original own funds (before deductions)	1,483
Deduction: Balance with the Investor Compensation Fund	(55)
Deduction: Intangible assets	(1)
Total Own Funds [Cysec: min required for the Company is: 125]	1,427

Leverage Ratio

Risk-based own funds requirements are essential to ensure sufficient own funds to cover unexpected losses. Those requirements alone are an additional measure to prevent institutions from taking on excessive and unsustainable leverage risk. PriorFX monitors the level and changes in the leverage ratio as well as leverage risk as part of the internal capital adequacy assessment process.

As at 31/12/2016 the leverage ratio was as following:

$$1,427 \text{ (own funds Tier 1) } / 3,031 = 0.47$$

Risk Management Priorities

The risk management objectives and policies for each separate category of risks are described below. The Company’s risk management and internal control system addresses the following key risks, which are considered to be the most material:

- Credit risk
- Market risk
- Operational risk
- Other risks

The Company's policies and procedures are designed to identify and analyze those and other risks, to prescribe appropriate risk limitations and to monitor the level and incidence of such risks on an on-going basis. Financial risk management related information could be found in the Audited Financial Statements for 2016.

Supervisory Review Process

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

Market Discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds. In addition, the results and conclusions of ICAAP shall be disclosed. The Company prepared basic outlines of its ICAAP in 2016 and committed to finalize it Q3 of 2017 taking into account the results of 2016 and of the first half of 2017.

ICAAP

ICAAP and ICAAP Report are essential tools to predict and timely mitigate all risk which the Company is facing. Due to drastic changes in economic environment and planned risk reassessment ICAAP draft was presented to the BoD, although final version fully in line with Guidelines GD-IF-02 was not ready. It was decided that this work should be finalized by Q3 of 2017 taking into account results of 2016, as well as the first half of 2017, and new legislative requirements.

Credit Risk

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises in particular when a failure by counterparties to discharge their obligations. The major concern here is represented by the banks. To minimize potential risks the Company was holding its cash balances with reliable financial institutions (Swissquote Bank, Switzerland; Rietimu Bank, Latvia; Russian Commercial Bank, Cyprus; Hellenic Bank, Cyprus) and the Company has policies to diversify risks and to limit the amount of credit exposure to any particular financial institution in compliance with the requirements of the CySEC Directive DI144-2007-06. The Company is allowed to keep in one institution not more than 100% of its own funds, and this limit was never crossed.

The Company did not had any own financial instruments/positions. Maximum exposure to overall credit risk (risk weighted exposure amount) at the end of 2016 was EUR 3,031 thousand.

The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

As at the Reporting reference date:

CREDIT RISK ON 31/12/2016

TYPE OF EXPOSURE	INITIAL AMOUNT OF EXPOSURE, EUR '000	RISK WAIGHTED AMOUNT, EUR '000	CAPITAL RQUIRENMENT, EUR '000
Central Government	26	26	2
Institutions	1,107	1,001	80
Corporate	1,520	1,520	122
Retail	589	442	35

Others	42	42	3
TOTAL	<u>3,284</u>	<u>3,031</u>	<u>242</u>

TOTAL AMOUNT OF EXPOSURES AS AT 31/12/2016 initial exposure amounts

TYPE	Central Government	Institutions	Corporate	Retail	Others	TOTAL, EUR '000
Cash at bank	-	1,107	-	-	-	1,007
Trade Receivables	-	-	1,520	589	-	2,109
Other Receivables	26	-	-	-	22	47
PPE	-	-	-	-	20	20
TOTAL	26	1,107	1,520	589	42	3,284

GEOGRAPHIC DISTRIBUTION OF EXPOSURES AS AT 31/12/2016

COUNTRY	Central Government	Institutions	Corporate	Retail	Others	TOTAL, EUR '000
Cyprus,CY	26	134	-	286	42	488
Latvia,LV	-	3	-	-	-	3
Switzerland,CH	-	970	-	-	-	970
United Arab Emirates,AE	-	-	1,520	1	-	1,521
France,FR	-	-	-	1	-	1
Germany,DE	-	-	-	63	-	63
Liechtenstein,LI	-	-	-	1	-	1
Malaysia,MY	-	-	-	2	-	2
Netherlands,NL	-	-	-	2	-	2
Russian Federation,RU	-	-	-	177	-	177
China,CN	-	-	-	56	-	56
Total	26	1,107	1,520	589	42	3,284

DISTRIBUTION OF EXPOSURES BY RESIDUAL MATURITY AS AT 31/12/2016

COUNTRY	Central Government	Institutions	Corporate	Retail	Others	TOTAL, EUR '000
<3 months	-	1,102	-	589	21	1,712
>3 months	26	5	1,520	-		1,551
Indefinite maturity	-	-	-	-	21	21
Total	26	1,107	1,520	589	42	3,284

The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

Counter-Parties Risk

All custodians and third party providers of financial services of PRIORFX limited have been assessed. The Risk Management has established limits for counter-party risk and there has been no violation of established limits. No significant risk exposure raising concerns has been identified except for the situation with Fortress, where maximum exposure level is also not exceeded. As a result of performed analysis of relations with Fortress certain measures were applied by Board of Directors and Management in order to prevent such situations in future. In particular, diversification of relations with partners and liquidity providers, paying more attention to any delays of fulfillment of obligations on the part of the partner and obtaining more detailed information regarding business reputation and solvency of counter-parties. Currently, certain legal and internal measures are applied for localization and removal of consequences of potential non-repayment of funds owed by Fortress, namely:

- Reserved own fund aimed for repayment of client's claims amounting to EUR450,000 at the end of 2016 (EUR 700,000 in March 2017);
- Obtained a credit line from other LP put to the client's account with them covering the difference between own funds reserved and total amount of funds owed by Fortress;
- Made steps to choose which law firm will be representing the Company's interests in court.

The case is under constant monitoring of the Management and the BoD, action plan is implemented to settle all outstanding issues. The percentage of the funds held by Fortress in

comparison with the total amount of clients' funds is constantly decreasing. The shareholders are committed to inject extra funds in due time if this plan fails.

Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. The Company manages operational risk through a system of controls and procedures in which processes are documented and transactions are reconciled and monitored. PriorFX has sufficiently effective Replacement Policy and Contingency plans consistent with the scope and complexity of the Company's operations. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated. The Company's Management is particularly focused on managing Operational risk. In 2016 the RM, the Risk Management Committee and the Company Management concentrated their efforts to promote and develop the risk conscious approach among the employees, especially taking into account changes in key personnel. To obtain this goal it was recommended to conduct on-going trainings to all staff members. Due to high priority given to this issue timely implementation of Replacement policy proved to be sufficiently effective in overcoming potentially negative consequences of the absence of Company's personnel. Redistribution of functions did not result in any noticeable interruptions of the normal business activities. Strict implementation of the "Four Eyes Principle" also proved to be affective risk mitigating factor, diminishing the risk of human error and its adverse consequences. Revising the effectiveness of measures and policies addressing the issues of business continuity, backups and information safety the RM Committee approved arrangements with the current IT services providers. The Company is assessing Operational Risk probability and potential impact as average and would continue to monitor it. The Company falls under Article 95 and 96 of Capital Requirements Regulation. It means that the Operational Risk is calculated on the basis of the level of fixed overheads for the previous period – 2016 where the Company is obliged to have sufficient own funds to cover similar expenses in future. The Fixed Overheads Requirement as at 31/12/2016 was EUR 353 thousand per quarter according to the following calculations:

	EUR '000
Fixed Overheads	1,412
Fixed Overheads Requirement (25% * Fixed Overheads)	353

Based on audited Financial Statement for the year ended 2016 the Additional risk exposure amount due to fixed overheads is 356 thousand which is calculated as the difference between “Fixed Overheads risk exposure amount” and “Total risk exposure amount”. In more details the fixed overheads calculation could be seen from the following table:

FIXED OVERHEAD REQUIREMENT	
Date of most recent audited annual financial statements:	31/12/2016
Preceding year:	2016
Does the CIF make use of tied agents?	NO
1. Total expenses (after distribution of profits) (please refer to Note (iv))	3479.00
2. Less:	
(a) fully discretionary staff bonuses	
(b) employees', directors' and partners' shares in profits, to the extent that they are fully discretionary	
(c) other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary	
(d) shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent upon the actual receipt of the commission and fees receivable	2039.00
(e) fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions	28.00
(f) fees to tied agents as defined in paragraph 1, Section 2 of Part I of Law 144(I)/2007, where applicable, notwithstanding the provisions of Note (i)	
(g) interest paid to customers on client money	
(h) non-recurring expenses from non-ordinary activities	
3. Other Additions (please refer to Note (i))	0
4. Fixed Overheads	1412
5. Fixed Overheads Requirement (25% * Fixed Overheads)	353
6. Fixed Overheads risk exposure amount	4413
7. Total risk exposure amount (as per Article 92(3), excluding item (e))	4057

Market Risk

Market risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. These are analyzed and taken into consideration when implementing the Company's strategy. Due to increasing scope of the Company's operations and streamlined expenses the overall potential impact from business risk is considered as average, despite certain signs of increased competition adversely affecting business environment.

The Company follows the Standardized Approach for calculating the minimum capital requirements for market risk.

The main such risks are detailed below:

Currency Risk

The Company is exposed to currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency (Euro). At the year-end, the Company had certain receivables and cash balances denominated in foreign currencies. The main currency, whose fluctuations may have an impact on the results of the Company, is the US Dollar. Total Risk exposure amount for foreign currency risk at the end of 2016 was EUR 1,026 thousand with the following breakdown:

CURRENCY	LONG	SHORT	TOTAL
Swiss Franc	7	9	2
US Dollar	202	1226	1024
TOTAL	209	1235	1026

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company does not have any own position in securities meaning that its income and operating cash flows are substantially independent of changes in market interest

rates. At 31 December 2016, the Company had no other interest bearing financial assets or liabilities than cash at bank, with interest at normal commercial rates. At 31 December 2016, if interest rates on USD, RUR and Euro-denominated bank balances had been 1% higher/lower with all other variables held constant, post-tax results for the year would not be significantly affected. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Liquidity risk

At 31 December 2016, the Company's main financial liabilities comprise payables to the Clients under Brokerage Agreements. In accordance with legal requirements the equivalent amounts of cash were at the same time in the clients' bank and broker accounts of the Company. Current obligations of the Company itself were also covered by sufficient funding.

In view of the above there was no serious liquidity risk related to mismatch of maturities.

Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc. Due to the nature of operations and specific clientele (majority are physical persons) the Company is not seriously subject to concentration risk due to high share of income generated by a few big Clients although it is gradually diminishing in comparison with the situation of 2015. Proper warning was given to the Senior Management which was taking extra efforts in order to attract new Clients and dilute potential concentration risk, which is considered as average. The Company is also regularly monitoring its large exposures, timely reporting this information to CySEC as and if required. No large exposures exceeding maximum permitted proportion of Company's own funds were spotted in 2016. Throughout the year 2016, The Company pursued a consistent policy of more uniform distribution of its own and segregated client funds held in bank accounts and liquidity providers. Also, it should be noted that PriorFX obtained a license for the expansion of the Company activity for other financial products, that will allow the use of extended range of financial instruments. This should result in decreased concentration on use of a limited number of instruments.

Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The probability of having to deal with a pile of customer claims is very low as the Company does its best to provide services of high quality while executing transactions or safekeeping instruments belonging to clients. Only few complaints were received from the clients (properly solved) in 2016 – all concerning sharp market movements during news time which is normal and is beyond the Company's control.

The fine imposed by the regulator on the Company certainly made damage to reputation of the Company, but did not fundamentally affect cooperation with main clients.

Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of changes in economic conditions. Business risk factors were regularly discussed and proper changes to business plans were introduced, as the Company starts putting more emphasis to financial stabilization. Sufficient capital buffer created in 2016 can help to minimize the Company's exposure to business risk and not put to question the Company's high capitalization level and its overall stability. Business Risk continues to be one of the major concerns and should be strictly monitored. Changes of business environment is always in the center of attention of the Management. Permission of increasing the line of financial instruments by CySEC which are allowed to be dealt with was done to diversify the Company's product portfolio and was meant to counter business risks.

Capital Risk Management

This is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital.

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times capital adequacy ratio above established minimum which is set at 8% (32.34% as on December 31, 2016). The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a regular basis of accounts to monitor the financial and capital position of the Company. In 2016 the Company maintained healthy Capital Adequacy ratios in excess of the legally established minimal levels.

The Company followed recommendation and established internal threshold of minimally acceptable CAD ratio set at 9% after which internal monitoring procedures are automatically becoming more intensive.

Regulatory Risk, Legal and Compliance Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Internal Operations Manual. PriorFX maintains effective internal and external control mechanisms represented inter alia by Compliance, AML, RM, Internal and External Audit functions who help to spot any existing and potential deficiencies and timely rectify them to prevent negative consequences. Compliance with these procedures and policies are assessed and reviewed by the Company's Compliance Officer and Internal Auditors and suggestions for improvement are implemented by Management. The Internal Auditors should evaluate and test the effectiveness of the Company's control framework at least annually. Also The CySEC inspected our Company in July 2016, when all requested materials were presented by our Company. These materials included procedures on customers assessment for appropriateness and suitability tests. After several

months assessment of its findings in the end of February 2017 Commission decided that there was some insufficiency in the scope of data collected from the clients and the process of conducting customers appropriate and suitability test based in our case on decision of the management and not some automated scoring system. As the result the fine was imposed on our Company. Taking into account the expected drastic changes in the regulatory environment the level of the above-mentioned risk was raised to average.

The BoD and the Management took proper measures to mitigate this risk taking additional personnel to strengthen compliance related function.

IT Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. The Company designed in 2016 and launched in 2017 the new improved version of PriorFX IT System which in addition to many other useful features includes a background scoring system to automatically evaluate a registrant's replies during registration process leading to the conclusion of the Appropriateness Test and Suitability Test as applicable.

The Company's Business Continuity Plan addresses the consequences of IT risk. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

Business Continuity Management

The Company is focused on business continuity management. In particular there is a disaster recovery plan for the whole Company. Risk assessment and monitoring of the relevant measures within every corporate department are performed in close cooperation with the relevant heads of departments.

Priorfx Ltd has in place the business continuity plan which covers the main elements involved if the Company has to ensure continuity and/or recovery of required level of operations under various adverse scenarios. The Board of Directors performed proper training of actions in emergency situations in 2016 (swift evacuation of the office staff under the threat of major

earthquake scenario with proper shutting of all systems and making connection with the remotely located server from a laptop via mobile network). No major deficiencies were spotted.

Remuneration Policy / Remuneration Policy and its impact on the Company's Risk Profile/ Remuneration Policy and Practices

Remuneration policies and practices implemented by the Company were intentionally simplified to the basic requirements of recruiting and maintaining high level professional personnel. Currently the remuneration policy is based mainly on fixed salaries. The Board of Directors considers such approach as the most practical at this stage as it corresponds to the scale and complexity of the Company's operations.

It is expected that new remuneration policies will be introduced based on individual and Company's performance once the growth targets set by the Company are met.

Remuneration Policies Risk Management Framework

The Board of Directors has the responsibility for the overall risk management approach, the identification and control of risks including the risks associated with the implementation of remuneration policies and practices. Specifically, the Managing Director and the Risk Management Officer are responsible for managing and monitoring risks. The remuneration of employees, including those performing the Risk Management function, is directly overseen by the Board of Directors. The functions of Compliance Officer and Internal Audit, which are currently outsourced, receive fixed remuneration on quarterly and/or annually basis which is based on the analysis of the current market data for costs for performance of such functions. The remuneration of the Directors of the Company is directly overseen by the Board of Directors. The remuneration of the Executive and Non-Executive Members for the year 2016 of the Board of Directors consists of a fixed remuneration. Remuneration of Directors and other members of key management for the year 2016 was amounted to **250,818** Euro. The persons who effectively direct the business of the Company follow advice from the Compliance function when developing, approving, implementing and reviewing the Remuneration Policy. The implementation of the remuneration policy is, at least annually, subject to central and

independent internal review and/or Compliance Function review for the compliance with policies and procedures for remuneration adopted by the Board of Directors.

ANALYSIS OF AGGREGATE INFORMATION ON REMUNERATION, BROKEN DOWN BY THE BUSINESS AREA FOR THE YEAR 2016

BUSINESS AREA	REMUNERATION FOR THE YEAR 2016, EUR'000
DIRECTORS' REMURERATION	251
OTHER	495
TOTAL SALARIES	746

The Risk Manager monitors the remuneration levels in other companies within the same industry, the existing remuneration levels in correlation with the financial results of the Company and analyses the market trends from a risk management perspective. Conclusions are reported to the Management and if necessary these are discussed with the Risk Management Committee, which also is responsible for handling the risk of not being competitive in personnel remuneration matters. Remuneration policies and practices implemented by the Company relating to its employees and directors (the Company does not have any tied agents yet) were intentionally simplified to the basic requirements of recruiting and maintaining high level professional personnel.

It is expected that new remuneration policies will be introduced based on individual and Company's performance once the growth targets set by the Company will be met.

With reference to the above subject matter and further to the provisions of the Circular C138 and Circular C145 regarding Remuneration policies and practices, the Company has reviewed its remuneration policies and practices which looks to be in compliance with the provisions of the aforementioned circulars and the applicable legislative requirements.

When designing or reviewing the remuneration policies and practices, the Company considered the conduct of business and conflicts of interest risks that may arise and take reasonable measures to avoid or manage them appropriately and efficiently. One of the major goals of remuneration policies and practices is to ensure that they are designed not to create incentives that may lead persons to favor their own interests, or the Company's interests, to the potential detriment of clients.

Risk Management Factors Regarding Remuneration Issues

The risk management factors regarding remuneration issues that are considered to be the most material and for which the Company's risk management and internal control system have been designed to address are the following:

- Risk of falling out of the "golden middle" as far as the existing remuneration levels is concerned;
- Risk of introducing stimulating remuneration practices giving rise to the conflict of interest;
- Operational risk as regards to maintaining key personnel and access to HR pool in case of necessary replacement.

The Company's policies and procedures are designed to identify and analyse those and other risks on an on-going basis through monitoring the related risks and improving stability of its operations. The purpose of managing risks is the prompt identification of any potential problems before they occur.

The remuneration of Executive Directors and Senior Management of the Company comprises of a salary.

The remuneration of the Non-Executive Directors of the Company comprises of a fixed annual fee.

Link between Pay and Performance

The Company has designed its remuneration policy to be proportionate to the scale, nature and complexity of the business taking into account the short time that the Company is in existence and the fact that there is not enough data to establish proper benchmarks in order to measure performance.

Due to the above the Company has decided to follow fixed remuneration scales for all employees including top Management at least currently. More complex stimulating remuneration schemes are expected to be introduced in the future depending on the Company's results and growth.

Communication / Enquiries

For any enquiries regarding this report and its contents of this report, please feel free to contact PriorFX at the contact details seen on its web-site or by telephone +357252582 20.