

FXPRO Financial Services Ltd

Regulated by the Cyprus Securities and Exchange Commission

License no. 078/07

**DISCLOSURE AND
MARKET DISCIPLINE**

FXPRO FINANCIAL SERVICES LTD

APRIL 2009

Introduction

FXPRO Financial Services Ltd (hereinafter called the “Company”) is an Investment Firm regulated by the Cyprus Securities and Exchange Commission (license number 078/07).

Following the implementation of the Directive DI144-2007-05 and subsequently Amending Directive DI144-2007-05(A) the Company is required to disclose information relating to its capital, the risks that the Company is exposed to as well as to promote market discipline. The effective date of these disclosures is as at 31 December 2008.

The Basel II Accord has been implemented in the European Union through the Capital Requirements Directive (“CRD”). The CRD consists of three “pillars”:

- Pillar 1 set out the minimum capital requirements of firms to cover credit, market and operational risk.
- Pillar 2 requires the firm to assess whether additional capital should be maintained against any risks not adequately covered under Pillar 1.
- Pillar 3 specifies a set of disclosure requirements which enable market participants to assess information on firms’ risks, capital and risk management procedures.

Location and Frequency of Publications

This report will be published on the Company’s websites at www.FxPro.com

This report shall be reviewed frequently (at least annually), and, where necessary of any updates, the Company shall proceed to the amendment of the report. Updates should be approved by the Board of Directors.

Risk Appetite and Management

The Company is exposed to a variety of risks as analysed and quantified below. However, the Company’s appetite for risk is regarded as low given the fact that it maintains effective processes for the identification, assessment, monitoring and management each risk.

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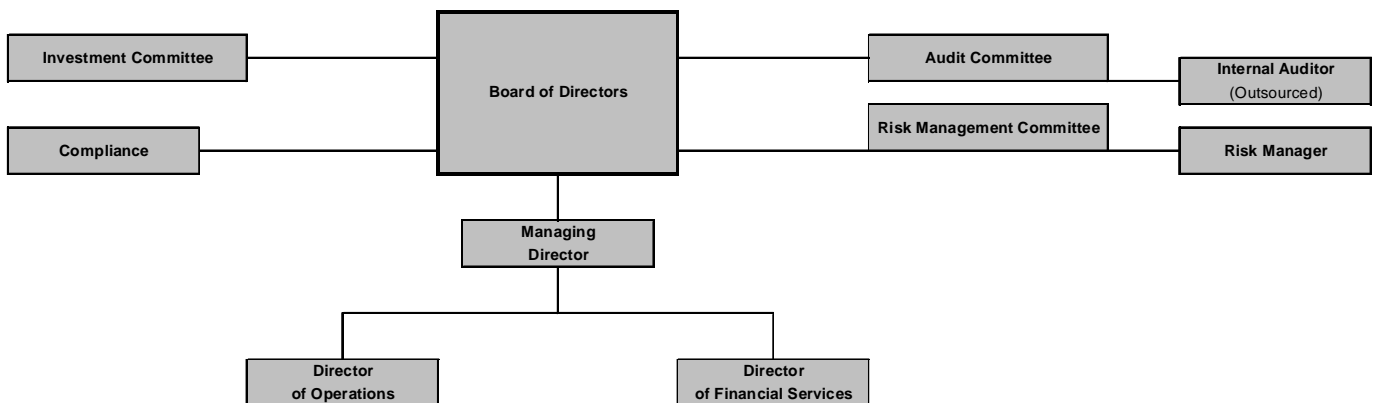
The Company’s Board of Directors and senior management has the overall responsibility for the internal control systems in the process of “Capital Adequacy Assessment”.

The Company employs on a full time basis a risk manager, who is responsible for the monitoring of the Company’s risk exposure. It is also worth of mentioning that the Company’s accounting, operations, internal audit, risk management and compliance functions perform their duties taking into consideration the enhancement, accuracy and overall effectiveness of the Company’s business within the guidelines of the risk management policies and procedures.

The internal control system and risk management system is overseen by the following committees / units:

- Board of Directors,
- Investment Committee
- Risk Management Committee
- Internal Audit
- Risk Manager
- Compliance and Anti-Money Laundering Officer

Below, we provide a diagram to show the flow of information and reporting lines between the above mentioned committees / units:



Any information that was not included in this report was either not applicable on the Company's business and activities -OR- such information is considered as proprietary to the Company and sharing this information with the public and/or competitors would undermine our competitive position.

Capital Adequacy

According to the Company's authorisation license, monthly capital adequacy reports (the "CAR") are prepared and submitted to Cyprus Securities and Exchange Commission (the "CySEC"). The CAR is prepared on a solo basis and the reporting currency is Euro.

Capital Resources

- The Company maintains only Tier 1 Capital as eligible own funds

Capital Requirement / Risk Weighted Assets

- According to the Capital Adequacy Directive the minimum capital adequacy ratio is 8%
- As at 31 December 2008, the Company's capital adequacy ratio was 25.69% much higher than the minimum required of 8%
- The Company's risk weighted assets were concentrated on the following categories:
 - Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirements
 - Position, Foreign Exchange and Commodities Capital Requirements
 - Operational Risk Capital Requirements.

Credit Risk

The Company follows the Standardised Approach for Credit risk.

Credit risk is the risk of loss that the Company would incur if a counterparty fails to perform its contractual obligations.

Mitigation Strategies

Some of the mitigation strategies that the Company follows are the following:

- Regular credit review of counterparties by the investment committee.
- To minimize credit risk of bank defaults, the Company:
 - Uses European banks (lower default risk)
 - Deposit funds with banks that have high ratings issued by Moody's, S&P or Fitch.
 - Diversifies funds over several European banks

Operational Risk

The Company follows the Basic Indicator Approach for operational risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external factors. Operational risk can be further divided into the following sub-categories:

- Internal Fraud Risk; External Fraud Risk; Marketing and Advertising Risk; Regulatory Reporting Risk; Internal Procedures and Controls Risk; Damage to Physical Asset, Business Disruption & System Failures Risk; Legal Risk etc.

Mitigation Strategies

Some of the mitigation strategies that the Company follows are the following:

- The Company has a four eyes structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a financial services director and a separate director of operations. The board further reviews any decisions made by management and monitors their activities,
- Several detection methods are in place by the accounting department in order to detect crooks or other fraudulent activities,
- The compliance officer ensures the accuracy of any statements made during the marketing and advertising processes. The officer also ensures that the information addressed to the client is fair, clear and not misleading,

- To mitigate this risk the Company has employed on a full time basis an anti-money laundering compliance officer that one of her responsibilities is to ensure that proper information/reports are sent on time to CySEC,
- Internal audit visits to ensure that employees comply with the Company's internal procedures.
- The Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure,
- The Company obtained continues legal advice and suggestions on the preparation of its legal documents.

Market Risk

The Company follows the Standardised Approach for market risk.

Market risk is the risk that the value of an investment will decrease due to moves in market factors. The following market risk factors are exposed to the Company:

Currency risk

It is the risk that foreign exchange (currency pairs) rates will change. This risk is applicable to the Company in two ways. Firstly, the Company has risk arising from client positions since in each client's currency pair trade the Company is the counterparty. Secondly, the Company has currency risk when it holds its own funds in a currency other than Euro, which is the base currency of the Company.

Interest rate risk

It is the risk that interest rates will change. The Company is exposed to interest rate risk since the level of swap rates given to Clients may vary according to level of prevailing interest rates.

Mitigation Strategies

Some of the mitigation strategies that the Company follows are the following:

- The Company employs on a full time basis a risk manager who is responsible for the monitoring of the Company's risk exposure,
- The risk manager monitors the compliance of the Company's trading book to the investment policy statement and any deviation is reported to the risk management committee and appropriate action is taken,
- The Company maintains trading accounts with other regulated Companies for engaging in proprietary positions in financial instruments for its own account as a hedging measure and in an attempt to minimize market risk.
- Aggregate net exposures, as they develop from the opening and/or closing of positions by clients, are monitored and a decision is taken by risk management committee on a constant basis regarding the level of risk to be maintained. Where risk exceeds desired levels, appropriate actions are taken to hedge risk until desired levels are achieved.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Mitigation Strategies

- Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses through its overdraft facility, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.