Pillar 3 Disclosures

Year Ended 31 December 2017

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Contents

1 Introduction

1.1 Overview

1.1.1 Purpose

The Capital Requirements Directive ("CRD") IV is the framework for implementing international capital adequacy standards in the European Union ("EU"); and consists of three pillars:

- Pillar 1 sets the minimum capital requirements that regulated entities are required to meet for credit, market and operational risk, as determined by the local regulator;

- Pillar 2 requires regulated entities and their supervisors to assess whether additional capital should be held against risks not covered in Pillar 1; and

- Pillar 3 seeks to improve market discipline by requiring regulated entities to disclose certain information on their risks, risk management and capital.

XTX Markets Limited ("XTX") is categorised as an IFPRU €730k Limited Activity firm and is subject to prudential oversight by the Financial Conduct Authority ("FCA"). The FCA implements the Pillar 3 requirements in the UK by way of Part Eight of the Capital Requirements Regulation ("CRR"). In summary, the regulations require XTX Markets to consider the following:

- The alignment of XTX's business strategy, plan, forecasts, Risk Appetite Statement ("RAS"), risks and Key Risk Indicators ("KRIs");

- The identification, definition, exposure and measurements of its key risks and controls to mitigate those risks;

- The integration of the Internal Capital Adequacy Assessment Process ("ICAAP") into the XTX Risk Management Framework ("RMF") processes;

- The resilience of the financial position by stressing the financial projections with a number of stress and scenario tests ("SST") which reflect the material, proximate and emerging risks facing the Company.

1.1.2 Basis of disclosures

These disclosures are made in accordance with the requirements of Articles 431 to 455 of the CRR. Specifically, XTX's risk management objectives and policies; the processes for managing its risks; the structure and organisation of its risk management functions; the scope and nature of its risk reporting and measurement systems and its policies for mitigating risk.

1.1.3 Frequency of disclosures

These disclosures will be produced on an annual basis as a minimum and more frequently, if appropriate. XTX Markets has a reporting date of 31 December and these disclosures reflect the position at 31 December 2017.

1.1.4 Verification, media and location

These disclosures have been produced solely for the purposes of satisfying the Pillar 3 requirements, to explain the basis of preparation, disclosure of certain capital requirements and provide information about the management of certain risks. The disclosures are not subject to audit nor do they constitute any form of audited financial statements.

The Board is responsible for the system of internal control and for reviewing its effectiveness.

The XTX Markets Pillar 3 disclosures have been prepared and reviewed in accordance with the XTX Markets Pillar 3 disclosure policy approved by the XTX Markets Limited Board in August 2018. Management consider that the disclosures as set out in the document adequately convey the risk profile of the firm.

These disclosures are published on the XTX Markets corporate website (www.xtxmarkets.com).

Disclosures as required by CRR Article 435 2 (a-d) can be found at: https://www.xtxmarkets.com/regulatory-disclosures/

1.1.5 Waivers applied to certain disclosures

The Board has considered whether the waivers afforded by Article 432 (1) and (2) should be applied to any of the required disclosures. It has concluded that no disclosures are to be omitted on the grounds of materiality (as defined in Article 432 (1)) or confidentiality (as defined in Article 432 (2)), however a number of disclosures have been omitted on the grounds that they contain information that is regarded as proprietary (as defined in Article 432 (2)).

In arriving at this conclusion, the Board has considered the following factors:

- The composition of its ownership and other external stakeholders;
- The nature of the industry in which it operates and the extent to which disclosures could be used by competitors in a way which would be detrimental to XTX Markets; and
- The methods adopted by XTX for providing such information to interested third parties in a way that would not be detrimental to XTX.

In summary, XTX Markets operates in a highly competitive industry and considers its trading strategies and risk management processes to be key differentiators between itself and competitors. The Board has therefore concluded that providing full disclosure as to the geographic composition of its trading book and credit risk exposures, the extent to which its assets are encumbered and detailed descriptions of its risk management framework could be used by competitors in a way that could impact its business negatively. The Board acknowledges the importance of good risk management and XTX Markets routinely liaises with counterparties wishing to enter into business arrangements with the Company and regulatory bodies in a transparent fashion and routinely provides comprehensive details of its risk management practices and composition of its capital requirements. The Board considers the provision of this information on an individual basis to third parties who have a legitimate reason to request it as an appropriate approach and is therefore satisfied that applying the Article 432 (2) waiver on the grounds of proprietary information to be in line with the requirements of CRD IV. The Board has also considered the fact that XTX has no external shareholders and concluded this to be an additional reason for deeming the use of the waiver to be appropriate.

Specific disclosures not made on these grounds are:

Article	Description	Rationale
435 (1) (f)	Inclusion of key ratios…including how the risk profile of the institution interacts with the risk tolerance set by the management body	Inclusion of key ratios considered to be proprietary and therefore not disclosed.
440 (1) (a)	Geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	Inclusion considered to be proprietary as could potentially allow competitors to ascertain geographic split of activities.
442 (d)	Geographic distribution of credit risk exposures	Inclusion considered to be proprietary as could potentially allow competitors to ascertain geographic split of activities.
443	Encumbered assets disclosures	Asset encumbrance disclosures would provide competitors with details of margins posted which could be used to infer size of trading activities and is therefore considered proprietary.

1.2 Scope

1.2.1 Basis of preparation

These disclosures are made on behalf of XTX Markets Limited on a solo basis.

2 Risk Management Objectives and Policies

2.1 Risk statement

Risk appetite is the type and amount of risk that a firm is willing to accept in the pursuit of its business objectives. The company's risk appetite is set by the Board, with input to the decision making process received from the Risk and Compliance Working Group and Global Operating Committee.
The following table shows how XTX's attitude to risk corresponds to different levels of appetite. Each of the risks described in the subsequent sections has a stated appetite level which informs the attitude of the Company to that risk.

Appetite	Corresponding attitude to risks with this appetite
Zero	XTX will avoid activities that incur this risk.
Low	XTX actively avoids this risk, other than where incurred through the normal course of business. Where the risk is taken on, appropriate controls will be implemented to minimise financial, reputational and regulatory exposures.
Medium	XTX accepts this risk where necessary to deliver against its strategic goals and objectives, supported by appropriate controls to minimise financial, reputational and regulatory exposures.
High	XTX pursues this risk in order to maximise its financial performance and competitive position. This risk may be heavily influenced by external factors and could cause significant financial, reputational and regulatory exposures, but the firm believes that its expertise enables it to avoid these outcomes.

The Company's Board reviews and adjusts its risk appetite at least annually or more frequently following reports or proposals from the Risk and Compliance Working Group.

Having agreed the Company's appetite for a particular risk, a set of limits for that risk are defined. These limits are monitored by the Risk and Compliance Working Group to ensure that the Company stays within its risk appetite.

Factors that influence the setting of XTX Markets' risk appetite (and the levels of the corresponding limits) include its capital base, clearing arrangements, trading strategy, depth of automated trading experience and reliance on third party vendors.

A range of quantitative thresholds for all risks have been set having had reference to own funds and the total capital ratio tolerance level. All risks were within appetite as at 31 December 2017.

2.2 Risks faced by XTX and risk profile

The FCA distinguishes the following risk-types faced by financial services firms. Those that are not applicable to XTX have been assigned a zero risk appetite.

The risks faced by the Company are business, counterparty credit, interest rate, liquidity, market and operational.

In terms of XTX's risk profile, the Board considers that operational is the most material risk facing the business. Liquidity risk and business risk (owing to the current business growth objective set by the Board) are also considered to be material risks. The Board acknowledges that market risk requires close and detailed monitoring given the Company's susceptibility to losses arising from adverse market movements. However, due to the robust suite of position and order limits and complimentary pre and post trade controls, as well as the position limits and holding periods of traded instruments, the Board considers the likelihood of a material loss arising from adverse market movements to be low. Market risk is therefore considered to be less significant than operational, liquidity and business risks. Counterparty credit and interest rate risks are considered to be the least material risks that the Company is exposed to.

2.3 Risk management strategies and processes

XTX manages its risks using an overarching Risk Management Policy that is supported by related risk policies and standards that cover specific risks. These risk policies and standards contain detailed risk guidance and requirements for XTX staff and take the following forms:

1. Policies specific to an individual risk-type or business activity;
2. Desk procedures owned by the department heads.

In terms of risk management objectives, strategies and processes for each separate category of risk, these can be summarised as follows:

2.3.1 Business risk

Business risk is defined as the current or prospective risk to earnings and capital arising from changes in the business environment, from adverse business decisions or from improper implementation of business decisions.

XTX is specifically exposed to business risk in the following ways:

1. Changes to the Company's business environment such as altered market dynamics, falling volatility levels, changes to fees and margin requirements, entry of new competitors and adverse tax and regulatory changes.
2. Consequences of adverse business decisions such as excessive rates of change or inaccurate profitability forecasting causing expansion to non-profitable markets.
3. Poor execution of strategic decisions caused by inadequate communication of the Company's strategy to the relevant staff or failure to track the progress of strategy implementation initiatives.

XTX manages business risk via an annual business strategy process that receives input from all departments within the Company and is subject to formal Board approval. The Finance team perform regular re-forecasts that reflect the latest views from the Board on expected performance as well as the impact of any changes made by the Board to the business strategy. Implementation of agreed strategic initiatives are prioritised, communicated and formally tracked at the Global Operating Committee and Business Development pipeline meetings.

2.3.2 Counterparty credit risk

Counterparty credit risk is defined as the risk of loss caused by the default of a counterparty to a transaction, before the final settlement of the transaction's cash flows.

XTX is predominantly exposed to counterparty credit risk via positions, margin and excess cash held with prime brokers, and excess corporate cash buffers held with banks. Additionally, XTX's eFX counterparties are a source of second-order counterparty credit risk.

XTX manages its counterparty credit risk via back-up arrangements for prime broker relationships and activity being split between > 15 prime brokers to reduce concentration, with segregated accounts being used wherever possible. Additionally, XTX actively manages its cash holdings between its prime brokers and core bank accounts to minimise exposures to any one institution. Where Non-Tier 1 institutions are used a formal process for performing due diligence and approval is in place, with final approval for use being given by the Capital and Liquidity Working Group.

Due diligence is performed on all new and existing counterparty relationships and there are legal protections in place against prime broker failure that ensure the smooth close-out of remaining trades. XTX ensures that netting arrangements exist as far as possible across all of its trading relationships.

XTX's post-trade controls include the continuous assessment and monitoring of all positions at prime brokers. The financial health of the Company's prime brokers and banks is monitored through CDS spreads and share prices.

2.3.3 Interest rate risk

Interest rate risk is defined as the risk that there are potential adverse movements in interest rates impacting the non-trading book and the effect that these may have on planned future cash flows.

XTX does not have any debt and is therefore only exposed to a rate reduction negatively impacting interest receivable on cash balances. In order to mitigate this risk XTX Markets invests a portion of excess cash in money market funds and short term fixed income investments. XTX Markets monitors its exposure to this risk via performing regular stress tests using a 2% shock to interest rates.

At the reporting date XTX has guaranteed debt taken on by another group company, with interest payments being based on LIBOR plus a mark-up. Therefore at 31 December 2017 XTX was exposed to interest rate risk should it have to fund repayment of this debt and a full Pillar 2 assessment was conducted in its corresponding ICAAP to quantify a worst case exposure.

2.3.4 Liquidity risk

Liquidity risk is defined as the risk that XTX is unable to meet its financial operating obligations as they fall due.

The main cause of liquidity risk for XTX is a sudden increase in margin requirements from prime brokers that requires immediate funding to allow for trading activities to continue as planned.

[XTX] MARKETS

In managing its liquidity risk, XTX is aware that the overall liquidity adequacy rule (BIPRU 12) must be met at all times. XTX is a non-ILAS Firm and is therefore exempt from BIPRU 12.5 to 12.7 and BIPRU 12.9. XTX has a highly cash generative business model with liquidity levels forecast to increase significantly over the next three years. A liquidity framework is in place to monitor the firm's liquidity risks, with a range of appetites and limits being set by the Board that govern target levels of cash coverage (including liquidity stresses) and that also govern diversification of liquidity balances. Formal processes are in place that govern the sweeping of excess funds held at prime brokers to corporate cash accounts. Exposures to non GBP currency balances are managed in accordance with the Board approved FX Policy.

The liquidity position of the Company is monitored via a number of reports generated on both a real time and retrospective basis.

2.3.5 Market risk

Market risk is defined as the risk of loss caused by an adverse move in the value of assets and liabilities.

Risks arising from interactions with the markets are out of XTX's direct control and could cause significant financial, reputational and regulatory exposures. However, the Company has taken active measures to minimise these impacts wherever possible via robust pre and post trade controls and prudent risk limits.

The models' trading activity, and their adherence to the limits within which they trade are continuously monitored by a dedicated team within the front office, and also independently by the operations and risk teams.

2.3.6 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

XTX manages operational risk via internal controls that are embedded in the day-to-day business processes, and are designed to ensure that the Company's activities are efficient and effective, information is reliable, timely and complete and that the Company remains compliant with applicable laws and regulations.

The following techniques are used to identify, manage and report on the Company's operational risks:

- Risk and control self-assessment;
- Operational risk scenarios and modelling;
- Key risk and control indicators;
- Risk event reporting; and
- Risk event reviews.

2.3.7 Regulatory risk

Regulatory risk is the risk that either a change in, or breach of, laws and regulations will negatively impact XTX in terms of restriction of business activities or regulatory censure (most commonly fines) in terms of breaches of laws and regulations.

XTX manages these risks via constant review of the regulatory horizon for upcoming new regulation or changes to existing regulation that may impact the Company. Compliance with existing regulations is monitored via the Compliance Monitoring Plan and by ad hoc reviews by external consultants, as well as by maintaining a collaborative relationship with regulatory bodies, where possible.

The Board accepts that the Company's culture is a key method for ensuring regulatory risk is minimised and both CEOs set a clear tone as to the levels of professional conduct expected from all employees.

2.4 Assessment of risk management arrangements

The Board considers that the risk management arrangements of the Company and the risk management systems embedded within the business are adequate with regard to the Company's risk profile and strategic objectives.

2.5 Information flows on risk to the Board

The Board receives quarterly written updates from all committees and working groups on key risk and capital metrics. These are presented by the committee or working group chair and contain information on key risk indicator status against appetite, operational risk events and capital adequacy on both a Pillar 1 and Pillar 2 basis compared to appetite.

Each committee or working group operates under approved terms of reference that stipulate the flows of information to the Board that includes both form and timing of information flows.

3 Risk and ICAAP Process

3.1 Overview of the risk and ICAAP process

XTX RMF provides a framework for managing risk. In summary:

- The XTX Board approves the business strategy, plan and forecasts for the Company;
- The XTX Board approves the RAS which sets out the risk appetite and tolerance levels for each of the key risks;
- Under the oversight of the Risk and Compliance Working Group and Board, management implement plans to mitigate or accept those key risks that are outside of risk appetite. The success of the risk management approach is monitored by the risk function through a range of methods including appropriate KRIs.
- The ICAAP identifies the amount of capital that needs to be held to ensure that the business can withstand the impact of a severe, yet plausible 1-in-200 year combination of its risks crystallising.
- KRIs are agreed by the Board to identify, measure, manage, monitor, report and resolve undue exposures to key risks facing the business. Each KRI has a trigger and limit requiring management responses when the thresholds are breached.
- Further processes included in the RMF include risk event reporting, compliance monitoring, thematic reviews and deep dive analysis.
- External events are assessed to identify any potential lessons learned for XTX.
- Operational risk scenario, stress testing and wind down plan workshops are conducted with relevant executives and subject matter experts ("SMEs") to determine the appropriate scenarios to use in the ICAAP to assess and stress the capital position of XTX. Workshop participants are briefed using data from the RMF, such as relevant material key risks, internal / external loss events, KRI data and Risk and Control Self Assessment ("RCSA") output.
- The ICAAP assesses the capital requirements of XTX. The scenarios and calculations generated are discussed in detail with the relevant executives and updated for any feedback received. The ICAAP document is reviewed and challenged by the Risk and Compliance Working Group, Capital and Liquidity Working Group, Global Operating Committee and Board. The ICAAP document is then approved (as appropriate) by the Board. The ICAAP is routinely updated on an annual basis, but will also be updated in the event of material changes to the business strategy, plan, forecasts and material risks facing the business.
- The ICAAP review has concluded that XTX is adequately capitalised:
    - To meet the risks that it faces;
    - To meet the minimum capital requirements of the FCA; and
    - To meet its financial obligations as they fall due.

4 Capital Resources and Adequacy

4.1 Capital resources

XTX has a simple capital structure with own funds consisting solely of Common Equity Tier 1 ("CET1") capital. CET1 capital is the highest ranking form of capital and comprises ordinary share capital, share premium, retained profits and other reserves. Total XTX capital amounted to **£168.5m** at 31 December 2017, all of which was CET1 capital.

At 31 December 2017 and throughout the year, XTX Markets complied with the minimum capital requirements as set out by the FCA.

4.2 Capital adequacy

4.2.1 Capital resources requirement – Pillar 1

XTX is required to calculate capital resource requirements as the higher of:

- The base (initial) capital resources requirement of €730k; and
- The sum of its fixed overhead requirement, credit risk requirement and market risk requirement.

The Pillar 1 capital surplus for XTX at 31 December 2017 is represented below:

Bridge from Net Assets to Common Equity Tier 1 Capital	£'m
Permanent share capital	69.8
Profit and loss and other reserves	137.4
Balance Sheet Net Assets	**207.2**
Deductions:	
Unaudited profits (less dividends paid)	(38.7)
Common Equity Tier 1 Capital after deductions	**168.5**
Total Capital Resources	**168.5**
Capital Resources Requirement	**£'m**
Base capital resources requirement	0.6
Fixed overhead requirement	20.8
Credit risk requirement	11.0
Counterparty credit risk requirement	0.3
Market risk requirement	9.4
Total Capital Resources Requirement	**41.5**
Capital Buffers	**£'m**
Capital Conservation Buffer	6.5
Counter Cyclical Capital Buffer	0.3
Combined Buffer Requirement	**6.8**
Capital Ratio	**%**
CET1 Capital ratio / Total capital ratio	**32.50**
Capital Surplus	**£'m**
Surplus of total capital (over combined buffer requirement)	**120.2**

4.3 Features, terms and conditions of capital instruments

CET1 Capital comprises of permanent share capital (ordinary shares). The shares shall rank *pari passu* in respect of dividend rights and rights upon a distribution of assets by the Company upon its liquidation and winding up (or any other return of capital).

Profit and loss consists solely of retained earnings.

4.4 Prudential filters and deductions

No prudential filters have been applied to capital resources in arriving at common reporting ("COREP") Own Funds.

In accordance with Article 48 of the CRR, a deferred tax asset that arises from temporary differences and is dependent on future profitability of **£0.5m** is not deducted from CET1 capital and is instead risk weighted at 250% in accordance with Article 48(4).

XTX has no intangible assets or material holdings.

4.5 Analysis of capital requirements

4.5.1 Credit risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform according to the terms of a contract. XTX bears the risk if issuers whose securities or other instruments it holds, prime brokers and other financial intermediaries default on their obligations.

The credit quality of counterparties with whom XTX Markets has contractual agreements is monitored by the operations and risk functions.

XTX defines past due items for accounting purposes as any items not received within 90 days of the invoice date. There were no past due exposures as at 31 December 2017.

In terms of impaired exposures, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Crystallised and anticipated losses are provided for within the income statement as soon as their crystallisation is considered probable and the quantum can be reliably estimated.

XTX did not make use of any specific or general credit risk adjustments in the period.

No accounting offsets are present that would result in exposure values different from those outlined in this section.

There have been no material impairments to assets during the year ended 31 December 2017.

4.5.1.1 Use of External Credit Assessment Institutions ("ECAIs")

XTX applies the standardised approach to calculating credit risk under Pillar 1. XTX uses the ratings of Standard and Poors ("S&P") to assess the credit quality of all exposure classes. The following table shows the breakdown of the exposure value, risk weighted exposure after applying the risk weighting determined by the categorisation in each credit quality step and the credit risk requirement as at 31 December 2017:

Credit Quality Step	Exposure Class	Risk Weighting %	Total Exposure (£'m)	Risk Weighted Exposure (£'m)	Own Funds Requirement (£'m)
1	Central governments or central banks	0%	1.0	0.0	0.0
1	Institutions	20%	11.1	2.2	0.2
1 - TOTAL			**12.1**	**2.2**	**0.2**
2	Central governments or central banks	20%	1.0	0.2	0.0
2	Institutions	20%	92.2	18.4	1.5
2 - TOTAL			**93.2**	**18.4**	**1.5**
3	**Institutions**	**20%**	**39.5**	**7.9**	**0.6**
Article 48	Central governments or central banks	250%	0.5	1.1	0.1
Unrated	Corporates	100%	7.4	7.4	0.6
Unrated	Institutions < 3 months	20%	95.9	19.5	1.5
Unrated	Other	100%	8.6	8.6	0.7
Unrated - TOTAL			**112.4**	**36.6**	**2.9**
Off Balance Sheet	Institutions	100%	72.5	72.5	5.8
Total			**329.7**	**137.6**	**11.0**

4.5.1.2 Summarised Credit Risk Exposures, Risk Weighted Exposures and Own Funds Requirement by Exposure Class

The following table summarises the credit risk own funds requirement by exposure class as at 31 December 2017:

Exposure Class	Total Exposure (£'m)	Risk Weighted Exposure (£'m)	Own Funds Requirement (£'m)
Central governments or central banks	2.4	1.3	0.1
Corporates	7.4	7.4	0.6
Institutions	311.3	120.3	9.6
Other	8.6	8.6	0.7
TOTAL	**329.7**	**137.6**	**11.0**

Exposures primarily relate to cash and trading balances held with banks and prime brokers.

All items subject to credit risk have a residual maturity of < 3 months.

4.5.2 Counterparty credit risk

Counterparty credit risk is defined as the risk of loss caused by the default of a counterparty to a transaction, before the final settlement of the transaction's cash flows. Given the nature of trading XTX has low counterparty credit risk with no exposure to long settlement transactions and the risk is therefore limited to financial derivatives exposures to financial institutions.

XTX applies the mark-to-market method in accordance with Article 274 of the CRR for calculating the exposure value for the purposes of measuring counterparty credit risk. For the year ended 31 December 2017 the counterparty credit risk requirement was **£283k.**

Credit limits for counterparty credit exposure are initially requested by the trading team and these are reviewed and approved internally by the Legal, Operations, Compliance and Risk teams having given appropriate consideration to legal and regulatory risks and the risk tolerance of the Company. Due to the nature of our trading strategy and the instruments traded, the Company is not exposed to wrong-way risk as defined by the International Swaps and Derivatives Association ("ISDA").

No legally enforceable netting agreements are in place to cover transactions subject to counterparty credit risk, therefore each position is assessed for counterparty credit risk on a gross basis. The gross value of current replacement cost was **£1.9m** and the gross value of future credit exposures was **£15.7m** as at 31 December 2017. The risk weighted amount for current replacement cost was **£0.4m** and for future credit exposures was **£3.1m.**

Internal capital and credit limits are set in line with risk appetites for credit concentration risk set by the Board.

4.5.3 Market risk

Market risk is defined as the risk of loss caused by an adverse move in the value of assets and liabilities. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying financial instruments are traded.

The Company is exposed to market risk on both intraday and overnight positions. Risk limits are set and monitored to prevent excessive intraday and overnight risk accumulating.

Under Pillar 1, XTX is exposed to the following components of market risk:

- Interest rate risk on its debt instruments;
- Position risk on its equity positions;
- Foreign currency exchange risk on its trading book and overall balance sheet; and
- Commodity risk on its commodity exposures.

XTX only trades non-securitisation debt instruments. As a result, Article 336 of the CRR is applied as the methodology for calculating the specific risk element of the interest rate risk on its trading book. The maturity-based approach outlined in Article 339 is used to calculate the general market risk element of the interest rate risk.

For position risk on its equity positions, XTX applies the standardised equity method as detailed in Articles 342-343 of the CRR.

Foreign exchange risk is calculated using Article 352 of the CRR.

For commodity risk, XTX applies the maturity ladder approach in accordance with Article 359 of the CRR.

4.5.4 Operational risk

As an IFPRU €730k Limited Activity firm XTX is not required to calculate an operational risk requirement on a Pillar 1 basis, instead it calculates a fixed overheads requirement. Operational risk is managed in line with the RMF as set out in section 2.3.6, and a Pillar 2a requirement is calculated using a scenario modelling methodology as part of the ICAAP.

4.5.5 Countercyclical capital buffer

XTX is required to calculate a Countercyclical Capital Buffer in line with the CRR. XTX Markets' institution specific countercyclical capital buffer as at 31 December 2017 was **£337k.**

4.5.6 Exposures to equities not included in the trading-book

In accordance with its trading book policy, XTX has an exposure to equities (in the form of CME shares) not included within its trading book. These shares are required to be held as part of XTX's trading membership with CME and are not held with an intention to trade and realise profit thereon.

The CME shares are held as available for sale assets and are valued based on the latest available price for these shares. As at 31 December 2016 the value of these shares was **£4.6m** and the unrealised gain in the year was **£0.9m.**

4.5.7 Exposure to interest rate risk on positions not included in the trading-book

Interest Rate Risk is the risk that there are potential impacts of adverse movements in interest rates in the non-trading book and the impact these have on planned future cash flows.

Interest Rate Risk in the non-trading book is presently therefore limited to a rate reduction reducing interest receivable on free cash. Given current low levels of interest rates this scenario is considered unlikely. However, a number of countries have moved to negative interest rates (including most recently Japan and some GBP balances), therefore the Board accepts there is a risk of negative rates.

The impact of a reduction in interest rates, and the impact of an increase (to reflect the potential risk should XTX have to fulfil its guarantee to repay a loan incurred by another group entity) has been considered within the ICAAP and Pillar 2a capital is held to cover this risk.

5 Remuneration Policy Disclosures

5.1 Article 96 CRD and Article 450 CRR Disclosures

5.1.1 Overview

XTX Markets Limited (XTX) is required to make certain disclosures in respect of its policies, procedures and practices relating to the remuneration of certain staff under Article 96 of CRD[1] (as implemented in 19A.3.12A of SYSC 19A of the FCA Handbook) and Article 450 of CRR[2]. XTX has implemented policies and practices in respect of group-wide remuneration which reflects its status as a Proportionality Level 3 firm (based on the FCA's General Guidance on Proportionality: The IFPRU Remuneration Code (SYSC 19A) dated May 2017 ("FG 17/6")).

5.1.2 Remuneration Policy

XTX has a Group Remuneration Policy which applies to all employees or contractors of the XTX group. Where an employee or contractor has been identified as a "material risk taker" (or MRT) additional considerations may apply under the Group Remuneration Policy. XTX internally maintains an MRT list. All decisions in respect of remuneration (fixed and variable) are made in accordance with the Group Remuneration Policy. The XTX Board is responsible for the XTX Group Remuneration Policy.

5.1.3 Decisions on remuneration

Decisions on remuneration are made by the XTX Remuneration Group with executive remuneration being the complete responsibility of the Board.

The Remuneration Group will take into account the following factors when making decisions in respect of remuneration: (1) in respect of total available remuneration, financial performance of the group, adjustments to take into account current or future risks, the cost and quality of capital and liquidity requirements; and (2) in respect of decisions on individual remuneration, individual performance, which includes a consideration of both financial and non-financial and, particularly, the individual's management of risk.

5.1.4 Approach to remuneration

XTX staff remuneration is made up of fixed pay and performance-related pay. Performance-related pay reflects firstly, the group's financial performance and, secondly, individual performance (as set out in more detail above). The Remuneration Group will take into account the following additional factors: the individual's level of seniority and experience, whether the individual performs a control function, whether the individual is an MRT and competitive market data for similar roles.

A proportion of performance-related pay for certain staff (including MRTs) is deferred in accordance with the XTX deferral policy. Certain requirements in relation to remuneration have been disapplied on the basis XTX is a Proportionality Level 3 firm.

[1] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (**CRD**).
[2] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (**CRR**).

5.1.5 Quantitative data

(FY17)	Fixed (£)	Variable (£)			Number of beneficiaries
		Paid	Deferred (vested)	Deferred (unvested)	
MRTs	1,943,333	1,990,000	0	662,500	10

6 Glossary of Terms

CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CME	Chicago Mercantile Exchange
COREP	Common Reporting Template
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EU	European Union
FCA	Financial Conduct Authority
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	The Prudential Sourcebook for Investment Firms
KRIs	Key Risk Indicators
RAG	Red Amber Green
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
RER	Risk Events Register
RMF	Risk Management Framework
SEC	Securities and Exchange Commission
SME	Subject Matter Experts
SST	Stress and Scenario Testing
UOB	United Overseas Banks
XTX	XTX Markets Limited