

# Plus500

World's Trading Machine

PLUS500CY LIMITED

## Pillar III Disclosures and Market Discipline for the year ended 31 December 2014

Under Directive DI144-2014-14 and DI144-2014-15 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

May 2015

## Contents

1.	Introduction.....	3
1.1	Corporate Information.....	3
1.2	Organisational Structure.....	5
1.3	Pillar III Regulatory Framework .....	5
2.	Risk Management Objectives and Policies .....	6
2.1.1.	<b>The Company's Approach to Risk Management</b> .....	6
2.1.2.	<b>Risk Management Function</b> .....	6
2.1.3.	<b>Internal Audit</b> .....	7
2.1.4.	<b>Anti-Money Laundering Compliance Officer</b> .....	8
2.1.5.	<b>Risk Appetite Statement</b> .....	8
2.1.6.	<b>Declaration of the Management Body</b> .....	9
2.1.7.	<b>Internal Capital Adequacy Assessment Process</b> .....	9
2.2	Risk Management Function.....	9
2.2.1.	<b>Credit Risk Management</b> .....	9
2.2.2.	<b>Market Risk Management</b> .....	10
2.2.3.	<b>Liquidity Risk</b> .....	11
2.3	Governance – Board and Committees .....	11
2.3.1.	<b>Board of Directors</b> .....	11
2.3.2.	<b>Governance Committees</b> .....	12
2.3.3.	<b>Recruitment Policy</b> .....	13
2.3.4.	<b>Number of directorships held by members of the Board</b> .....	14
2.3.5.	<b>Diversity Policy</b> .....	14
2.3.6.	<b>Information flow on risk to the management body</b> .....	15
3.	Own Funds.....	15
4.	Minimum required own funds for credit, market and operational risk .....	17
4.1.	Credit Risk.....	17
5.	Remuneration Policy and Practices.....	21
5.1.	Remuneration and Human Resources Committee (RHRC) .....	21
5.2.	Performance Related Pay .....	21
5.3.	Design and structure of Remuneration .....	22
6.	Appendices.....	24

# 1. Introduction

## 1.1 Corporate Information

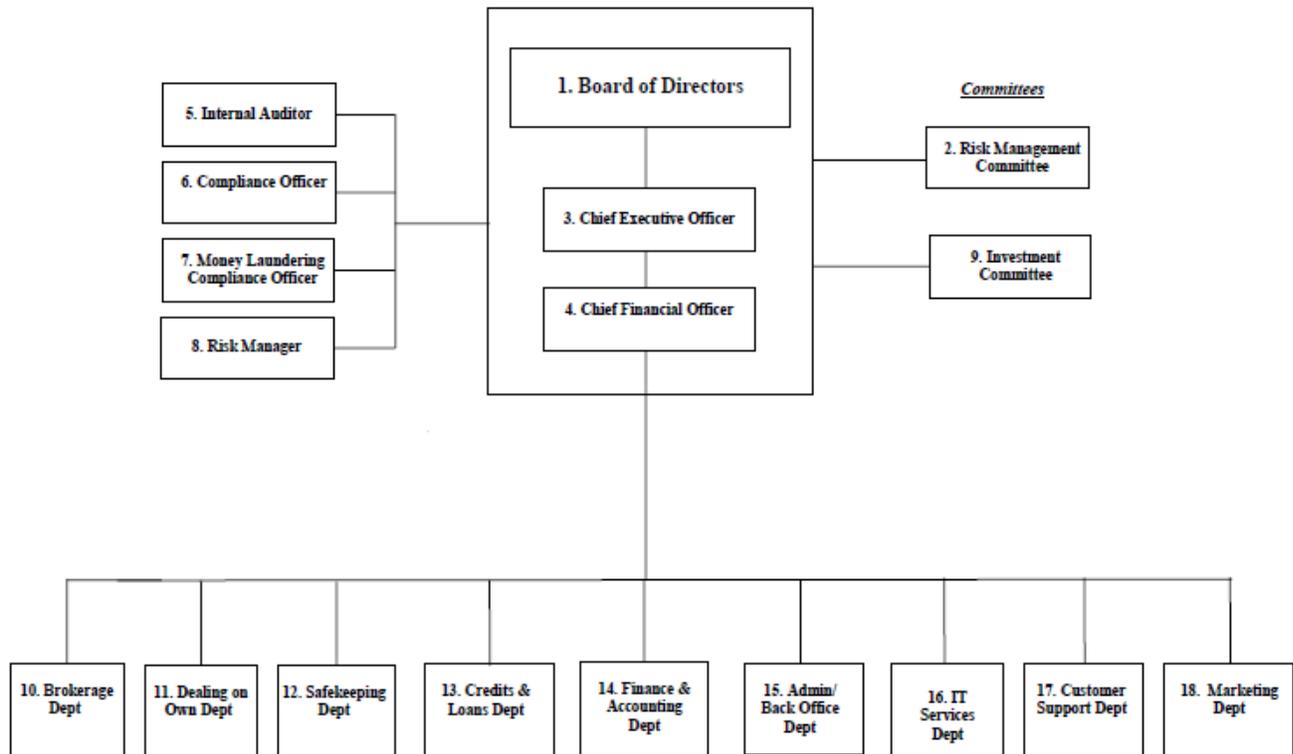
Plus500CY Limited (“the Company”) is authorised and regulated by the Cyprus Securities and Exchange Commission (“CySEC”) as a Cyprus Investment Firm (“CIF”) to offer Investment and Ancillary Services under license number 250/14, dated October 10 2014.

The Company has the licence to provide the following investment and auxiliary services, in the financial instruments outlined below:

Investment Services	Ancillary Services	Financial Instruments
Reception and transmission of orders in relation to one or more financial instruments	Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management	<ol style="list-style-type: none"> <li>(1) Transferable securities</li> <li>(2) Money-market instruments</li> <li>(3) Units in Collective Investment Undertakings</li> <li>(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</li> <li>(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)</li> <li>(6) Options, futures, swaps, and other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF</li> <li>(7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point III(6) above 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 recognized clearing houses or are subject to regular margin calls</li> </ol>
Execution of orders on behalf of clients	Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	
Dealing on own account	Foreign exchange services where these are connected to the provision of the above investment services	

Investment Services	Ancillary Services	Financial Instruments
		<ul style="list-style-type: none"> <li>(8) Derivative instruments for the transfer of credit risk</li> <li>(9) Financial contracts for differences (for differences in relation to MiFID instruments, currencies, interest rates or other financial indices)</li> <li>(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 that by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls.</li> </ul>

## 1.2 Organisational Structure



## 1.3 Pillar III Regulatory Framework

The EU Capital Requirements Directive (“CRD”) created a revised regulatory framework (commonly known as Basel II) governing how much capital firms are required to maintain. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord.

On 1st January 2014, Basel III regulations, commonly known as CRD IV revised the definition of capital resources and included additional capital and disclosure requirements.

The main purpose of the Basel Accord is to make the framework more risk sensitive and representative of actual risk management practices. The current framework consists of three Pillars:

- Pillar I sets out the new minimum capital requirements firms are required to meet;
- Pillar II requires firms to assess their capital requirements in light of any specific risks not captured in the Pillar One calculations; and
- Pillar III seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.

Following the publication of the CRD IV package, consisting of the Capital Requirements Directive (“CRD” or Directive 2013/36/EU) and the Capital Requirements Regulation (“CRR” or Regulation (EU) No 575/2013) which are applicable from 1 January 2014 and repeal Directives 2006/48/EC and 2006/49/EC, along with Directive DI144-2014-14 for the prudential supervision of Investment Firms and Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange

Commission arising from Regulation (EU) No 575/2013, the Company successfully implemented the new prudential provisions in order to fully comply with current legislature.

The Company has prepared these disclosures (hereinafter the “Pillar III disclosures”) in accordance with the requirements of the Directive DI144-2014-14 for the prudential supervision of Investment Firms (‘the Directive’) issued by the Cyprus Securities and Exchange Commission along with Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013.

The Regulation provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Regulation also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The European Banking Authority (“EBA”) defines proprietary as “...if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm’s investments therein less valuable.” Confidential information is defined as: “Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality.” Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section and the reasons for this.

The information provided in this report is based on procedures followed by the Management to identify and manage risks for the year ended 31 December 2014 and on reports submitted to CySEC for the year under review.

The Company is making the disclosures on an individual (solo) basis.

## **2. Risk Management Objectives and Policies**

### **2.1.1. The Company’s Approach to Risk Management**

Managing risk effectively in a multidimensional organisation, operating in a continuously changing risk environment, requires strong risk management principles. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits, complies with the applicable legislation, take better informed decisions and improve the probability of achieving its strategic and operational objectives.

### **2.1.2. Risk Management Function**

The Company shall always adopt effective arrangements, processes and mechanisms to manage the risks relating to the Company’s activities, processes and systems, in light of that level of risk

tolerance. The Risk Management function shall operate independently and shall be assigned the monitoring of the following:

- The adequacy and effectiveness of the Company's risk management policies and procedures;
- The level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted; and
- The adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures.

As an additional and effective control, the Risk Management Committee shall be responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

The Risk Manager shall be responsible for:

- Efficient management of the Company's risks in the provision of the investment and ancillary services to Clients, as well as the risks underlying the operation of the Company, in general;
- Monitoring the adequacy and effectiveness of the risk management policies and procedures that are in place;
- The level of compliance by the Company and its relevant persons with the adopted policies and procedures, in addition to the Company's obligations stemming from the relevant laws;
- The adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures; and
- Making recommendations and indicating in particular whether the appropriate remedial have been taken in the event of any deficiencies identified, as aforementioned.

### **2.1.3. Internal Audit**

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, shall establish and maintain an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor shall be appointed and shall report to the Board of the Company.

The Internal Auditor shall be separated and independent of the other functions and activities of the Company. The Internal Auditor shall bear the responsibility to:

- Establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements;
- Issue recommendations based on the result carried out;
- Verify compliance with the recommendations; and
- Provide timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.

The Internal Auditor shall be responsible for applying the Internal Control System (hereinafter, the "ICS"), which shall confirm the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor shall be the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor shall have clear access to the Company's personnel and books. Likewise, the Company's employees shall have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

The Board shall ensure that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board shall ensure all issues are dealt with and prioritized according to the Board's assessment.

#### **2.1.4. Anti-Money Laundering Compliance Officer**

The Board shall retain a person to the position of the Company's Anti-Money Laundering Compliance Officer (hereinafter the "AMLCO") to whom the Company's employees should report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO shall belong to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The AMLCO shall lead the Company's Anti-Money Laundering Compliance procedures and processes and report to the Board of the Company. In cases where it shall be deemed necessary, and following recommendations by the AMLCO, assistants to the AMLCO shall also be appointed.

The AMLCO shall be assigned the duty to prepare the Annual Money Laundering Compliance Officer Report, in the manner prescribed below. The AMLCO's Annual Report shall be prepared and submitted to the Board for approval within two months from the end of each calendar year (i.e. the latest, by the end of February). The Board, having studied the content of the Annual Report, shall take any necessary measures to correct any weaknesses or omissions identified in the Annual Report. Following the Board's approval of the Annual Report, a copy of the Annual Report should be submitted to the CySEC together with the Board's meeting minutes, within twenty (20) days from the end of the meeting, and no later than three months from the end of each calendar year (i.e. the latest, by the end of March).

#### **2.1.5. Risk Appetite Statement**

The Company's strategic objective is to be a provider of Contracts for Difference (CFD's) to its clients, delivering trading facilities on shares, forex, commodities and indices, alongside innovative trading technology. In line with Plus500 Group, the Company operates with a strong customer focus and provides a portfolio of over 2000 instruments which aim to deliver value for clients. The Company's strategy is pursued within a defined Risk Appetite. Risk appetite is the amount and type of risk that the Company and its Group is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, reputational, compliance and anti-money laundering compliance risk.

The Board expresses the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across three categories:

- Financial: credit, market and liquidity, capital risks;
- Reputational: conduct, customer, regulatory and external reputational risk;

- Operational and People: the risk associated with the failure of key processes and/or systems (information technology risk) and the risk of not having the right quality and quantity of people to operate those processes and systems;
- Other: strategic risk, business risk, regulatory risk, legal and compliance risk.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

### **2.1.6. Declaration of the Management Body**

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such – offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

### **2.1.7. Internal Capital Adequacy Assessment Process**

The Company is in the process of establishing an Internal Capital Adequacy Assessment Process (hereinafter, the "ICAAP"), document it in an ICAAP Manual and produce in this regard an ICAAP Report, as per the Guidelines GD-IF-02 & GD-IF-03. Upon CySEC's request the ICAAP Report shall be submitted to CySEC. In this respect, it is hereby noted that operations have not been initiated yet to the full extent while the Company is still in the initial stages of its operations lifespan. The ICAAP report will describe how the Company implemented and embedded its ICAAP within its business. The ICAAP will also describe the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks (including risks other than the Pillar 1 risks) faced by the Company.

## **2.2 Risk Management Function**

### **2.2.1. Credit Risk Management**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. At year end the Company did not have a significant concentration of credit risk in relation to other receivables. For banks and financial institutions, only independently rated parties or parties internally assessed as healthy are accepted. The Company has policies in place to ensure that customers place adequate funds prior to enabling them to enter into CFD transactions and that customer's cash balances are held with high credit rating banks and financial institutions or parties internally assessed as healthy are accepted

## **2.2.2. Market Risk Management**

Market risk is defined as the risk that the value of an investment will decrease due to moves in market factors (such as currency fluctuations, changes in interest rates, and movements in equity prices). The Company's exposure to market risk at any point in time depends primarily on short-term market conditions and client activities during the trading day. The Company has an agreement with its counterparty to economically hedge all CFD transactions entered with its customers. Therefore, the Company is not exposed to market risk because each transaction with the client is fully hedged with corresponding transactions.

The Foreign Exchange Risk, Interest Rate risk and Equity risk collectively form the Market Risk.

### **2.2.2.1. Foreign Exchange Risk**

Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. At the year end the Company had no significant balances in foreign currencies other than the trading positions which are fully hedged. The Company is exposed to foreign exchange risk arising from various currency exposures (GBP, USD, ILS, CHF, NOK, SEK, HUF, CZK, HKD, DKK, PLN, and AED). The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

### **2.2.2.2. 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's income and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest-bearing assets and liabilities (to be noted that bank balances are held in current types of accounts, bearing insignificant interest).

Nonetheless, the Risk Manager monitors the interest rate fluctuations with the assistance of the accounting function and based on the fluctuations of the relevant rates, the necessary hedging activities will be undertaken, as and where applicable.

### **2.2.2.3. Operational Risk Management**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. To support this, inter alia, a program of audits will be undertaken by the Internal Auditors of the Company during 2015 while continuous monitoring of operational risk incidents is performed to ensure that past failures will not be repeated. Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of almost any exposures to operational risk. The Company has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of, inter alia, the following components:

- Lower Human Interaction - the majority of actions occurring in the Company's systems are automated and therefore it is less likely that a human error will occur;

- Review of risks and controls as part of the Internal Audit function;
- Regular review and updating of policies;
- Monitoring of the effectiveness of policies, procedures and controls by Internal Audit;
- Maintenance of Risk Registers by following the risk monitoring programme in order to ensure that past failures are not repeated;
- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- The Company minimizes fraud activities and further enhances AML/KYC procedures by using third-party software system, which provides access to a database. This database's content is derived from a significant number of official sources, including numerous criminal and financial sanctions databases, Politically Exposed Persons data, crime related data and adverse or negative information;
- Financial accounts are audited by one of the big-four audit firms;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases. This plan is structured around teams with each team having a set of specific responsibilities; and
- A Business Continuity Plan has been implemented which helps protect all of the Company's information databases including data, records and facilities.

For the calculation of operational risk in relation to the capital adequacy reports, the Company uses the Basic Indicator Approach. Following the CRDIV application to the CIFs, the calculation of operational risk is mandatory only for “*Full Scope*” CIFs (i.e. licenced for the investment service of “Dealing on Own Account” or “Underwriting of financial instruments”).

### **2.2.3. Liquidity Risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. All of the Company's financial liabilities are due within twelve months from the balance sheet date. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

## **2.3 Governance – Board and Committees**

### **2.3.1. Board of Directors**

The Board of Directors consists of two executive and two non-executive members.

The Chairman of the Board shall be one of the Independent Non-Executive Directors of the Company.

#### **The Board of Directors responsibilities**

The Board shall be responsible for ensuring that the Company complies with its obligations under the Law. The Board shall assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, and to

take appropriate measures to address any deficiencies. The Board shall ensure that it shall receive on a frequent basis, and at least annually, written reports regarding Internal Audit, Compliance, Anti-Money Laundering & Terrorist Financing, Risk Management and Internal Capital Adequacy Assessment Process (ICAAP) issues, indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies. The Board shall be responsible for the monitoring of the internal control mechanisms of the Company to enable prevention of activities outside the scope and strategy of the Company and the prevention of any unlawful transactions, the identification of risks, and the timely and adequately flow of information. Furthermore, the Board shall pass a resolution for selecting a service provider or individual for outsourcing. The executive directors shall take part in the operation of the Company and, as appropriate, in the provision of investment services. The Non-Executive (Independent) Directors shall monitor the operations of the Company through their participation in the various meetings of the Board, and will also request and be granted access to, as necessary, information and reports from the management of the Company.

### **Voting Procedures**

The Board shall make decisions at a meeting by written resolution. All decisions of the Board regardless of the forum (physical or via conference call) shall be made by a majority vote on all matters within the competence of the Board. In the event of voting tie, the group in which the Chairman of the Board has voted for is considered to have the majority.

### **2.3.2. Governance Committees**

In order to support effective governance and management of the wide range of responsibilities the Board has established a Risk Management Committee and also an Investment Committee, which are formed in order to ensure the practice of a proper investment policy and the monitoring of the provision of adequate investment services to clients. Furthermore, the Company maintains a Senior Management - “4-Eyes” structure, which is responsible to ensure that the Company complies with its obligations under the applicable legislation, to assess and periodically review the effectiveness of the policies, arrangements and procedures put in place and take appropriate measures to address any deficiencies.

#### **2.3.2.1. Investment Committee**

The Investment Committee, inter alia, ensure and monitors that the necessary hedging activities will be undertaken, as applicable, as well as to review the established dealing on own account manual and to use the recommendations of the Head of the Dealing on Own Account Department.

#### **2.3.2.2. Risk Management Committee**

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. Towards this direction, the Company shall form a robust ICAAP and 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 the ICAAP and of the risk management policies and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address

any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedure.

The Risk Management Committee consists of the Chief Executive Officer, the Chief Financial Officer, a non-executive Director and the Risk Manager.

No Risk Committee meetings have taken place during 2014 as by the end of the year the Company had been in operation for just a month.

### **Responsibilities of the Risk Management Committee**

- Scrutinize, and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies in dealing with the risks associated with the operation of the Company;
- Review the risk management procedures in place;
- Review, discuss, elaborate and amend, if necessary, the ICAAP of the Company, on a yearly basis, prior to the approval of the Board;
- Monitor and control the Risk Manager in the performance of his/her duties and the effectiveness of the Risk Management Department;
- Ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company;
- Consider, to the extent possible, risk factors affecting costs, the price at which competitors offer the same services, and the cost-benefit ratio for each service, and verify that such information is utilized by the Risk Management Department in the carrying out of their duties;
- Specifically, with respect to liquidity risk and market risk, review the Company policies on acceptable maximum risk assumption limits per class of risk.

### **Risk management committee meetings**

The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings. Extraordinary meetings can be called by any member of the Risk Management Committee, as well as by the Risk Manager.

### **2.3.3. Recruitment Policy**

The Company follows a predetermined procedure for the appointment of the members of the Board of Directors and Senior Management, appointing a qualified and experienced individuals with sufficiently good repute (i.e. integrity, honesty, morals and credibility). Specifically, when considering the appointment of the members of the Board and Senior Management, special attention shall be given to the following:

- Necessary qualifications, education, skills, experience as to ensure the sound and prudent management of the Company, and diversity in order to conduct all their duties;
- Financial markets and financial advisory sector market knowledge, risk management knowledge, experience and knowledge in the financial services industry as well as experience with local and international financial matters;
- Sufficient knowledge, of the legal framework governing the operations a Cyprus investment firm, including the investment services and activities which are regulated by the Cyprus Investment Firms Law 144(I)/2007; and

- Good knowledge of the Greek or/and English languages.

Particularly, when considering the appointment of a member of the Board, special attention shall be given to the potential member per his Board Skills review which aim to assess the specific experience and skills needed to ensure the optimum blend of the potential individual and the aggregate capability having regard to the Company's long term strategic plan. Members of the Board and Senior Management appointment is subject to the approval of the Chief Executive Officer and the Board. Regulatory approval is co-ordinated through the Compliance Officer. The majority of the members of the Board shall be residents of Cyprus.

#### **2.3.4. Number of directorships held by members of the Board**

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. It shall be noted that, the Company is not considered significant in terms of its size, internal organization and the nature, scope and complexity of its activities.

<b>Name of Director</b>	<b>Position within Plus500CY</b>	<b>Number of Directorships</b>
Elad Even Chen	Executive Director	1
Eleni Vickers	Executive Director	1
Stelios Stylianos	Non – Executive Director	3
Stephanos Stephanou	Non – Executive Director	2

#### **2.3.5. Diversity Policy**

Plus500CY recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. Plus500CY believes that board diversity enhances decision-making capability and a diverse board is more effective in dealing with organisational changes. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. For the purpose of this Policy, the Company considers that the concept of diversity incorporates a number of different aspects, therefore all Board appointments are made on merit, in the context of the skills, experience, knowledge, business perspectives, industry or related experience, independence, gender, age, cultural, educational background and more general experience which the Board as a whole requires to be effective.

#### **Skills and Experience**

Members of the Board shall possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board shall reflect an adequately broad range of experiences to be able to understand the Cyprus investment firm's activities, including the main risks to ensure the sound and prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations a Cyprus investment firm.

## Independence

The Board includes a composition of Executive and Independent Non-executive Directors so that there is a strong element of independence in the Board. The Independent Non-executive Directors shall be of sufficient calibre and stature for their views to carry weight.

Each member of the board of directors must act with independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor management decision-making.

## Gender

Plus500CY is committed to maintaining an environment of respect for people regardless of their gender in all business dealings and achieving a workplace environment free of harassment and discrimination on the basis of gender, physical or mental state, race, nationality, religion, age or family status. The same principle is applied to the selection of potential candidates for appointment to the Board. At the date of adoption of this Policy, the Board's aim was to ensure that at least 20 per cent of the Board was made up of women.

### 2.3.6. Information flow on risk to the management body

- Senior Management reviews the written reports prepared by the Risk Manager, applies the decisions of the Board with respect to risk management and monitors whether all the Company's risk management procedures are followed;
- The Internal Auditor provides timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.
- The AMLCO shall report to the Board of the Company any suspicious transactions involving money laundering and terrorist financing.

## 3. Own Funds

The own funds of the Company as at 31 December 2014 comprised solely of original own funds (Tier 1). The composition of the Company's capital base is shown in the table below.

**Table 1: Composition of the capital base**

<b>Original Own Funds ( Tier 1)</b>	<b>2014 (€'000)</b>
Share capital	200
Share premium	1.791
Retained earnings	172
<b>Original Own Funds (Tier 1 Capital)</b>	<b>2.163</b>

The total authorized number of ordinary shares is 200.000 shares with a par value of €1 per share.

On 16 June 2014 (date on incorporation) the Company issued 1.000 ordinary shares at par value of €1 each. On 11 September 2014 the Company issued 150.000 ordinary shares of €1 each at a premium of €9 per share. On 29 December 2014 the Company issued 49.000 shares of €1 each at a premium of €9 per share.

## Capital Adequacy Ratio

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the regulator (Cyprus Securities and Exchange Commission - CySEC)
- to safeguard the Company's ability to continue as a going concern
- to maintain a strong capital base to support the development of the business.

The Company's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of customers, creditors, other market participants and to secure the future development of the Company. Capital adequacy and the use of the regulatory capital are monitored by the Company's management. The required information is filed with the Company's regulator on a quarterly basis.

The CySEC 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.

The capital adequacy ratio as reported to CySEC for the year ended 31 December 2014 was above the minimum capital adequacy ratio of 8% required by CySEC.

**Table 2: Capital Adequacy Ratio**

	<b>2014</b>
	<b>€'000</b>
<b><i>Eligible Own Funds</i></b>	
Share capital	200
Share premium	1.791
Audited profit/(loss) for the period	172
<b><i>Original Own Funds (Tier 1 Capital)</i></b>	<b>2.163</b>
<b><i>Capital Requirements</i></b>	
Credit risk	159
CVA Risk	0
Market Risk	34
Operational Risk	72
Additional capital requirements for the large exposure excess in the Trading Book	18
<b><i>Total Capital Requirements</i></b>	<b>283</b>
<b><i>Capital Adequacy Ratio</i></b>	<b>61,31%</b>

## 4. Minimum required own funds for credit, market and operational risk

**Table 3: Capital requirement by risk category**

Risk Type	Pillar 1 Capital Requirement €'000
Credit	159
Market	34
<i>of which Equity market risk</i>	0
<i>of which Commodity market risk</i>	0
<i>of which Interest rate market risk</i>	0
<i>of which FX market risk</i>	34
Large exposures in the Trading Book	18
Operational	72
CVA	0
<b>Total Capital Requirement</b>	<b>283</b>

The Company follows the Standardized Approach for the measurement of its Pillar 1 capital requirements for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital requirement calculated for each category of risk as at 31 December 2014 is shown in the table above.

### 4.1. Credit Risk

For calculating its credit risk capital requirement, the Company uses the standardized approach. The following table represents the Company's credit risk exposure and average exposure, risk weighted assets ("RWA") and minimum capital requirement as at 31 December 2014, broken down by exposure class.

**Table 4: Credit risk summary table**

Asset Classes	Risk-weighted amounts €'000	Minimum capital requirement €'000
Public sector entities	60	5
Institutions	549	44
Corporates	941	75
Retail	429	35
Other Items	3	0
<b>Total</b>	<b>1.982</b>	<b>159</b>

The following table provides information on the average exposures of the Company's asset classes as at 31/12/2014 as well as on the total amount of exposures after accounting offsets:

**Table 5: Average exposures and total amount of exposures after accounting offsets**

Asset Classes	Original exposure amount, net of specific provisions	Average exposure
	€'000	€'000
Central Governments and Central Banks	0	0
Regional governments or local authorities	0	0
Public sector entities	60	20
Multilateral Development Banks	0	0
International Organisations	0	0
Institutions	2.748	1.664
Corporates	941	374
Retail	624	208
Other Items	3	33
<b>Total</b>	<b>4.376</b>	<b>2.299</b>

The following table provides information on the residual maturity of the Company's credit risk exposures as at 31/12/2014:

**Table 6: Residual Maturity of credit risk exposures, broken down by exposure class**

Allocation of exposures by residual maturity at 31 December 2014	Up to 3 months	>3 months	Total
	€'000	€'000	€'000
Public sector entities	0	60	60
Institutions	2.748	0	2.748
Corporates	927	14	941
Retail	624	0	624
Other Items	0	3	3
<b>Total</b>	<b>4.299</b>	<b>77</b>	<b>4.376</b>

The table below illustrates the geographic distribution of the Company's exposures as at 31/12/2014

**Table 7: Geographic Distribution of exposures**

Exposures per Asset Class per Country of incorporation of Counterparty	United Kingdom						Total
	Cyprus	Israel	Switzerland	Germany	Other		
	€'000	€'000	€'000	€'000	€'000		
Public sector entities	60	0	0	0	0	0	60
Institutions	277	1.838	0	590	0	43	2.748
Corporates	16	269	656	0	0	0	941
Retail	135	0	7	39	96	347	624
Other Items	3	0	0	0	0	0	3
<b>Total</b>	<b>491</b>	<b>2.107</b>	<b>663</b>	<b>629</b>	<b>96</b>	<b>390</b>	<b>4.376</b>

The following table shows the distribution of the Company's exposures by industry type as at 31/12/2014.

**Table 8: Distribution of exposures by industry**

<b>Exposures by Asset Class by Industry Segment</b>	<b>Banking/Financial services €'000</b>	<b>Private Individuals €'000</b>	<b>Other €'000</b>	<b>Total €'000</b>
Public sector entities	0	0	60	<b>60</b>
Institutions	2.748	0	0	<b>2.748</b>
Corporates	655	0	286	<b>941</b>
Retail	0	624	0	<b>624</b>
Other Items	0	0	3	<b>3</b>
<b>Total</b>	<b>3.403</b>	<b>624</b>	<b>349</b>	<b>4.376</b>

### **Use of External Credit Assessments Institutions' (ECAI) Credit Assessments for the determination of Risk Weights**

The Company uses external credit ratings from Fitch, Moody's and Standard & Poor's. These ratings are used for all relevant exposure classes. In the cases where the three credit ratings differ, the Company takes the two credit assessments generating the two lowest risk weights and then it uses the credit assessment that corresponds to the higher risk weight.

Exposures to rated institutions are risk weighted based on the credit assessment of the institution itself and the residual maturity of the exposure as per Article 120 of CRR. Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favorable risk weights of 20% if specific conditions are met.

Exposures to corporate clients were risk weighted by 100% risk factor since they were all unrated and were incorporated in countries with no credit rating or with credit assessment up to credit quality step 5.

The Other Items category includes property, plant and equipment, VAT input and cash in hand. A risk weight of 100% was applied to Other Items, with the exception of cash at hand, for which a 0% risk weight factor was assigned.

The Public sector entity includes the Company's exposure to Investors' Compensation Fund as per paragraph 13(3) of Directive DI144-2014-15 on the national discretions of CySEC.

The Company has used the credit step mapping table below to map the credit assessment to credit quality steps.

Credit Quality Step	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

**Table 9: Exposures before and after credit risk mitigation by credit quality step:**

Credit Quality Step	Exposure values before credit risk mitigation €'000	Exposure values after credit risk mitigation €'000
CQS 1	0	0
CQS 2	2.154	2.154
unrated/N/A	2.222	2.169
<b>Total</b>	<b>4.376</b>	<b>4.323</b>

### Counterparty Credit Risk

The Company's total exposure in derivatives amounts to €840 thousand which is calculated using the "Mark-To-Market Method" as the sum of the current replacement cost and potential future credit exposure. The Company mitigates its counterparty credit risk exposure by recognising the deposits/margin of its counterparties as funded credit protection. The Firm applies the Comprehensive Method for Credit Risk Mitigation (CRM) purposes.

The minimum capital requirement calculated for the open derivative positions of the Company as at 31/12/2014 is presented in the following table

**Table 10: Counterparty Credit Risk**

Type of exposure	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before CRM	Exposure Amount After CRM	Risk Weighted Assets	Capital Requirements
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Commodity Derivatives	119	(119)	4.710	590	574	491	39
Equity Derivatives	41	(41)	2.126	169	143	125	10
FX Derivatives	19	(19)	3.228	51	42	37	3
Derivatives on Gold	3	(3)	526	8	6	6	-
Derivatives on Precious Metals	3	(3)	274	22	21	18	1
<b>Total</b>	<b>185</b>	<b>(185)</b>	<b>10.864</b>	<b>840</b>	<b>786</b>	<b>677</b>	<b>53</b>

**Credit risk adjustments:**

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company 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 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. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income. None of the derivative financial instruments is either past due or impaired.

## **5. Remuneration Policy and Practices**

### **5.1. Remuneration and Human Resources Committee (RHRC)**

It is noted that the Company has taken into account its size, internal organization and the nature, scope and complexity of its activities, and it does not deem necessary the establishment of a Remuneration Committee. Remuneration practices are currently set by the Board of Directors. In case the Company shall deem necessary to establish a Remuneration Committee in the future, then this section shall be updated as applicable (as per the requirements of paragraph 22 of the Directive).

### **5.2. Performance Related Pay**

The Company shall ensure that where remuneration is linked with performance, the total amount of remuneration is based on a combination of the performance assessment of:

- The individual (quantitative as well as qualitative criteria are taken into account; annual performance evaluation and performance rating are taken into account),
- The business unit concerned, and
- The overall results of the Company.

Examples of qualitative criteria include compliance with regulatory requirements (especially conduct of business rules and, in particular, the review of the suitability of instruments sold by relevant persons to clients) and internal procedures, fair treatment of clients and client satisfaction.

The Company implements a performance appraisal program, mainly to foster talent and promote healthy competition amongst personnel which is based on a set of Key Performance Indicators and Targets, developed for each department.

In general, performance appraisal is performed in a multiyear framework in order to ensure that the appraisal process is based on longer-term performance and that in the future (i.e. when applicable), the actual payment of performance-based components of remuneration will be spread over a period which will take into account the Company's underlying business cycle and risks.

Additionally, performance appraisal on medium and short-term is being performed as follows:

- Objectives are set in the beginning of each year (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve during the year.
- Performance checks and feedbacks: managers provide support and feedback to the concerned staff on an on-going basis, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.

The annual performance review takes place annually and among others determines the level of the annual (one-off) bonus to be awarded to the Compliance Function. This bonus upon completion of 12 months depends on (a) the Company keeping its CIF Licence and (b) the Company not receiving any penalties or fines from CySEC.

The Compliance Function is eligible for the annual (one-off) bonus remuneration upon completion of 12 months period of employment, provided that during the applicable 12 months period:

- a) The Company has not failed to keep its CIF Licence;
- b) The Company has not received any penalties or fines from CySEC.

### **5.3. Design and structure of Remuneration**

#### **Fixed Remuneration**

Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role. The Policy is also set in comparison with standard market practices employed by the other market participants/competitors. It is, however, at the sole discretion of the Company to pay the employee salary above the minimum amount of remuneration defined by the Employment Law. The Company's fixed remuneration is approved by the Board of Directors for all the relevant employees and it is reviewed by the Company at such intervals, as it shall decide at its sole discretion, without affecting the other terms of employment.

#### **Variable Remuneration**

The total remuneration of staff does not currently consist of any variable components, while no remuneration is payable under deferral arrangements (with vested or unvested portions), nor were there any severance payments during the current year. Further to this, the Company, will periodically review the Policy, as and when applicable and thus adjust it, should the need arises for remuneration to include variable components

**Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm, indicating the following:**

<b>Description</b>	<b>Number of beneficiaries</b>	<b>Fixed Earnings</b>	<b>Variable Earnings</b>
Senior Management - Directors	1	17.213,35	0
Heads of Departments	5	47.738,81	0
Non-Executive Directors	2	3.000,00	0
<b>Totals</b>	<b>8</b>	<b>67.952,16</b>	<b>0</b>

## 6. Appendices

### APPENDIX I

#### TRANSITIONAL OWN FUNDS DISCLOSURE

At 31 December 2014	Transitional Definition	Full - phased in Definition
	€'000	€'000
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	1.991	1.991
Retained earnings	172	172
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0	0
Funds for general banking risk	0	0
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>2.163</b>	<b>2.163</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>	<b>0</b>	<b>0</b>
Intangible assets (net of related tax liability)	0	0
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>0</b>	<b>0</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>2.163</b>	<b>2.163</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>0</b>	<b>0</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>2.163</b>	<b>2.163</b>
<b>Tier 2 (T2) capital</b>	<b>0</b>	<b>0</b>
<b>Total capital (TC = T1 + T2)</b>	<b>2.163</b>	<b>2.163</b>
<b>Total risk weighted assets</b>	<b>3.529</b>	<b>3.529</b>
<b>Capital ratios and buffers</b>		
Common Equity Tier 1	61,31%	61,31%
Tier 1	61,31%	61,31%
Total capital	61,31%	61,31%

## Appendix II

### **BALANCE SHEET RECONCILIATION**

<b>Balance sheet reconciliation</b>	<b>2014</b>
<b><i>Capital and reserves</i></b>	<b>€'000</b>
Share capital	200
Share premium	1.791
Retained earnings	172
<b>Total Equity as per Audited Financial Statements</b>	<b>2.163</b>
<b>Total Own funds as per COREP</b>	<b>2.163</b>
<b>Difference</b>	<b>-</b>