Plus500

World's Trading Machine

PLUS500CY LIMITED

Pillar III Disclosures and Market Discipline for the year ended 31 December 2016

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

April 2017

Contents

1. Introduction

1.1 Corporate Information

Plus500CY Limited ("the Company" or "Plus500CY") 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 ancillary 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, including custodianship and related services	(1) Transferable securities (2) Money-market instruments (3) Units in Collective Investment Undertakings (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash (5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event) (6) Options, futures, swaps, and other derivative contracts relating to commodities that can be physically settled, provided that they are traded on a regulated market and/or an MTF (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 (8) Derivative instruments for the transfer of credit risk (9) Financial contracts for differences (for differences in relation to MiFID
Execution of orders on behalf of clients	Foreign exchange services where these are connected to the provision of investment services	
Dealing on own account		

Investment Services	Ancillary Services	Financial Instruments
		instruments, currencies, interest rates or other financial indices) (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.

1.2 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 CRR/CRD IV, revised the definition of capital 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 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 I calculations; and
- Pillar III seeks to improve market discipline by requiring firms to publicly disclose certain details of their risks, capital and risk management.

Following the publication of the CRD IV package, consisting of the Capital Requirements Directive ("CRDIV" 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 CySEC's 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 the current legislation.

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 CySEC along with Directive DI144-2014-15 on the discretions of the CySEC arising from the CRR.

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 they believe 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." Furthermore, information is 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.

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 2016 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 Arrangements

2.1 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 it identifies and manages its risks adequately, establishes the necessary policies and procedures, sets and monitors relevant limits, complies with the applicable legislation, takes more informed decisions and improves 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 its activities, processes and systems, in light of that level of risk tolerance. The Risk Management function operates independently and monitors 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;
- The overall risk governance of the Company, including aligning business strategy with risk appetite, and ensuring that all key risks are controlled via a robust risk management framework; 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 Committee is responsible for monitoring and controlling the Risk Manager in the performance of his/her duties.

The Risk Manager is responsible, inter alia, 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;
- Monitoring 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;
- Evaluating 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, as mentioned above;
- Actively being involved in elaborating the Company's risk strategy and in all material risk management decisions;
- Reporting risk management issues to the Company's Senior Management and the Board of Directors;
- Making recommendations and indicating in particular whether the appropriate remedial actions have been taken in the event of any deficiencies identified;
- Examining the financial results and capital adequacy of the Company;
- Ensuring that any new financial instruments or investment services are aligned to the Company's strategy and implementing risk management procedures in respect of the new services and products;
- Establishing a policy regarding the amount of information provided to clients about the nature and risks of financial instruments according to the client classification; and
- Supervising the Disaster Recovery plan.

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, has established and maintains an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor has been appointed and reports to the Board of the Company.

The Internal Auditor is separated and independent of the other functions and activities of the Company, and bears 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 inspections 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 is 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 includes the performance, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has unrestricted access to the Company's personnel and books. In addition, the Company's employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

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

2.1.4. Anti-Money Laundering Compliance Officer

The Board has appointed 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 belongs to the higher hierarchical layers of the Company so as to command the necessary authority. The AMLCO leads the Company's Anti-Money Laundering Compliance procedures and processes and reports to the Board of Directors. In cases where it shall be deemed necessary, and following recommendations by the AMLCO, assistants to the AMLCO shall also be appointed.

The AMLCO has been assigned the duty to prepare the Annual Money Laundering Compliance Officer Report, in the manner prescribed below. The AMLCO's Annual Report is 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. Following the Board's approval, a copy of the Annual Report is 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 (CFDs) to its clients. This involves trading in CFDs on shares, indices, commodities, ETFs, foreign exchange, and options alongside innovative trading technology. In line with Plus500 Group, the Company operates with a strong customer focus and provides a portfolio of various 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 types of risks that the Company and its Group are able and willing to accept in pursuing their 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 its Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across the following categories:

- Financial: credit, market, liquidity and 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 regards 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 has established an Internal Capital Adequacy Assessment Process (hereinafter, the "ICAAP"), which it has documented in an ICAAP Report and a relevant policy manual. Currently the Company is in the process of producing its updated ICAAP Report for the year 2016, as per the Guidelines GD-IF-02 & GD-IF-03. Upon CySEC's request the ICAAP Report shall be submitted to CySEC. The ICAAP report describes how the Company has implemented and embedded the management of the various risks to which it is subject, within its business. The ICAAP also describes the Company's Risk Management framework e.g. the Company's risk profile and the extent of risk appetite, the risk management limits where relevant, as well as the measures that need to be taken and, if necessary, the Pillar II capital to be held for the most material risks (including risks other than the Pillar I risks) faced by the Company.

In performing its ICAAP, the Company has adopted the "Pillar I Plus" approach. In particular, the Company uses simple methods to quantify the capital requirements, over and above the Pillar I minimum requirement, as more advanced approaches are considered unsuitable for the size and complexity of the Company and require extensive use of resources and time to produce. The allocation of capital for Pillar II takes into consideration the risks that have been assessed internally by the Company as "material", through the risk assessment as well as the capital planning and stress test exercises performed. All risks falling outside the Company's risk appetite are considered to be threats to the Company and are covered with additional capital and/or additional controls.

2.2 Risk Governance – Board and Committees

2.2.1. Board of Directors

The Board of Directors, as at the reference date, consists of two executive and three non-executive members, of which the two are also independent. The Chairman of the Board is one of the Independent Non-Executive Directors of the Company.

The Board of Directors responsibilities

The Board is responsible for ensuring that the Company complies with its obligations under the Law. The Board assesses and periodically reviews the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law, and takes appropriate measures to address any deficiencies. The Board shall ensure that it receives 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 is 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 of any unlawful transactions, as well as to ensure the identification of risks, and the timely and adequate flow of information. Furthermore, the Board shall pass a resolution for selecting a service provider or individual for outsourcing. The executive directors take part in the operation of the Company and, as appropriate, in the provision of investment or ancillary services. The Non-Executive (Independent) Directors 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 a voting tie, the group in which the Chairman of the Board has voted for is considered to have the majority.

2.2.2. Board Committees

In order to support effective governance and management of the wide range of responsibilities, the Board has established a Risk Committee, a Remuneration Committee and a Nomination Committee. 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 to take appropriate measures to address any deficiencies.

Risk Committee

The Risk Committee is formed with a 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 has formed a robust ICAAP and has adopted and maintains 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 Committee bears the responsibility to monitor the adequacy and effectiveness of the ICAAP, the risk management policies and procedures that are in place, and the measures taken to address any deficiencies in these, as well as to monitor the level of compliance by the Company and its relevant persons with the said policies and procedures.

In 2016 the Risk Committee consisted of three Non-Executive directors (two of them independent) and the Risk Manager & Compliance Officer (ex-oficio and without any voting rights), as required by paragraph 6(3) of Directive 144-2014-14 of CySEC, and in accordance with CySEC's Circular C081 based on which the Company falls within the definition of a "Significant CIF".

The responsibilities of the Risk Committee are as follows:

- Scrutinize and decide on various risks associated with the operation of the Company with a view to formulate internal policies, and to increase the awareness and measure the performance of the said policies;
- Review the risk management procedures in place;
- Review, discuss, elaborate and amend, if necessary, the ICAAP process and document 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 a clear policy in respect to the assumption, follow up and management of risks, duly communicated to all interested parties and organizational units within 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 its duties;
- Specifically with respect to liquidity risk and market risk, review the Company's policies on acceptable maximum risk assumption limits per class of risk;
- Determine the Company's pricing policy; and
- Monitor the effectiveness of the risk strategy of the Company and provide recommendations to the Board of Directors.

Furthermore, following the abolition of the Investment Committee, the Risk Committee has undertaken certain responsibilities of the Investment Committee.

The Risk Committee meets at least on a quarterly basis, whenever there is a change in the composition of the Board of Directors and/or Senior Management, as well as on an ad hoc basis at the request of one of its members. Extraordinary meetings can be called by any member of the Risk Committee, as well as by the Risk Manager. During 2016, the Risk Committee met on a quarterly basis (i.e. four times).

Nomination Committee

As per the requirements of paragraph 18A(2) of the Investment Services and Activities and Regulated Markets Law (as amended) and of CySEC Circular C081 on the 'Definition of "Significant CIF"', CIFs which are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities, must establish an independent Nomination Committee.

Therefore, the Company has established and maintains an independent Nomination Committee, of which the duties and responsibilities include:

- Identifying and recommending, for the approval of the Board, candidates to fill vacancies in the Board;
- Evaluating the balance of knowledge, qualifications, skills, diversity and experience of the Board;
- Preparing a description of the roles and capabilities for a particular appointment and assessing the time commitment expected;
- Deciding on a target for balanced gender representation in the Board;
- Incorporating the target for gender representation in the Company's Board Diversity Policy and performing an annual review of any relevant progress in this area;
- Ensuring that there is a broad set of qualities and competences when recruiting members for the Board, in accordance with the Company's Board Diversity Policy;
- Assessing periodically, and at least annually, the structure, size, composition and performance of the Board and making recommendations to the Board with regards to any changes;
- Assessing periodically, and at least annually the knowledge, skills and experience of members of the Board individually, and of the Board collectively, and reporting to the Board accordingly;
- Periodically reviewing the policy of the Board for the selection and appointment of senior management and providing recommendations to the Board;
- Considering, to the extent possible and on an ongoing basis, the need to ensure that the Board's decision making is not dominated by any one individual or a small group of individuals in a manner that is detrimental to the interests of the Company as a whole.

The Nomination Committee shall be constituted in such a way as to enable the exercise of competent and independent judgment on relevant policies and practices. The members of the Nomination Committee shall have appropriate knowledge, skills and expertise to fully understand and monitor the application of the relevant policies. Appointment of Committee members shall change only upon the approval of the Board which -as such- must replace immediately the retiring member of the Committee or appoint a temporary member until a permanent member is selected. The Nomination Committee shall convene at least annually or whenever there is a change in the members of the Board of Directors, as well as on an ad hoc basis at the request of one of its members. Extraordinary meetings can be called by any member of the Committee, as well as by the Compliance Officer or the Risk Manager.

As of December 2016 the Nomination Committee consisted of the three Non-Executive Directors (two of them Non-Independent) and the Risk Manager & Compliance Officer (ex-officio and without voting rights).

Remuneration Committee

Please refer to Section 6.1. below.

2.2.3. Recruitment Policy

The Company follows a predetermined procedure for the appointment of the members of the Board of Directors and Senior Management, appointing qualified and experienced individuals with sufficiently good repute (i.e. integrity, honesty, morals and credibility). The Nomination Committee is responsible to identify and recommend, for the approval of the Board, candidates to fill vacancies in the Board, where necessary. 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 and experience so as to ensure the sound and prudent management of the Company, and diversity in order to conduct effectively and efficiently all their duties and responsibilities;
- Very strong interpersonal/people skills as well as managerial skills including time management and leadership skills;
- Profound and solid corporate governance and business administration skills;
- High sense of responsibility and work ethics portraying the professional traits of initiative and pro-activeness;
- 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 of 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’s skills review which aims 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 are 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.

2.2.4. Number of directorships held by members of the Board

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.

The table below provides the number of directorships that each member of the management body of the Company holds at the same time in other entities, including the one in Plus500CY.

Table 1: Directorships of Board Members

Name of Director	Position within Plus500CY	Number of Directorships
Elad Even Chen	Executive Director until 1/2/2016 and non-Executive as of 2/2/2016	1
Ofir Chudin	Executive Director	1
Eleni Vickers	Executive Director	1
Stelios Stylianou	Non – Executive Director (resigned on 18 October 2016)	3
Stephanos Stephanou	Non – Executive Director (resigned on 12 August 2016)	2
Andreas Aloneftis	Non – Executive Director (appointed on 18 October 2016)	5
Ioannis Pishias	Non – Executive Director (appointed on 12 August 2016)	1

2.2.5. 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 that 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. The Company believes that the Board should be characterized by a broad range of views arising from different experiences. Additionally, the Board should have a sustainable development as its core value, which will promote the interests of all Company stakeholders, particularly the long term interests of its shareholders, fairly and effectively.

The Diversity Policy is stored on the Company's local intranet folders and all staff members have access to it. Furthermore, this policy is included in the Company's Internal Operations Manual (IOM). 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 in order to be effective. The applicability of this policy is reviewed at least annually by the Board of Directors, in the context of an internal review for compliance with the relevant legislation.

Skills and Experience

Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences in order to be able to understand the Cyprus Investment Firms' activities and main risks to ensure the sound and prudent management of the Company, as well as sufficient knowledge of the legal framework governing the operations of a Cyprus Investment Firm. The Board should possess a balance of skills appropriate for the requirements of the business of the Company, in order for the Company to benefit from its directors' experience in a range of activities including varied industries, education, government, investment and the professions. Reference is made to the Company's Board Skills review matrix included in the Company's Recruitment Policy, which aims 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.

Independence

The Board includes a composition of Executive, Non 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 must act with independence of mind to properly 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% of the Board was made up of women.

2.2.6. Information flow on risk to the management body

- The Senior Management and the Board review 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 reports to the Board of Directors any suspicious transactions involving money laundering and terrorist financing, and prepares the annual AMLCO report, which is reviewed and approved by the Senior Management and the Board.
- Moreover, the Compliance Officer prepares on an annual basis, a Compliance Report, which sets out the progress made by the Company in the previous year with respect to the compliance with applicable legislation and internal policies and procedures, any deficiencies identified and measures taken, as well as any future plans in this area, and submits it to the Senior Management and the Board for review and approval.

3. Own Funds

The own funds/capital base of the Company as at 31 December 2016 comprised solely of Common Equity Tier 1 (CET1), as shown in the table below:

Table 2: Composition of Capital Base

Capital Base	31 Dec 2016 (€'000)
Common Equity Tier 1 capital	
Share capital	350
Share premium	14.641
Retained earnings and profit of the period (net of foreseeable dividends)	21.034
ICF contribution	(60)
Total Common Equity Tier 1 capital	**35.965**
Additional Tier 1 capital	**-**
Tier 2 capital	**-**
Total Own Funds	**35.965**

On 26 September 2016, the Company increased its authorized share capital from 300.000 shares to 350.000 shares. As at 31 December 2016, the total authorized number of ordinary shares was 350.000 shares with a par value of €1 per share.

On 26 September 2016, the Company issued additional 50.000 ordinary shares of a nominal value of €1 each, at a premium of €99 each.

Capital Adequacy Ratio

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the CySEC;
- to safeguard its ability to continue as a going concern; and
- to maintain a strong capital base to support the development of its business.

The Company's policy on capital management is focused on maintaining the capital base sufficient in order to keep the confidence of customers, creditors and other market participants at satisfactory levels 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 submitted to 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% for Pillar I risks plus additional capital buffers as applicable, while it may also impose additional capital requirements for risks not covered by Pillar I. As at 31 December 2016, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 0,625% as per the transitional application provisions for buffers, resulting to an overall minimum requirement of 8,625%. The Company's actual capital adequacy ratio as reported to CySEC for the year ended 31 December 2016 was well above the minimum requirement, as indicated by the table below:

Table 3: Capital Adequacy Ratio

Own Funds and Capital Adequacy Ratio	31 Dec 2016 (€'000)
Eligible Own Funds	
Share capital	350
Share premium	14.641
Retained Earnings	2.382
Audited profit/(loss) for the period	18.652
ICF contribution	(60)
Total Own Funds	***35.965***
Capital Requirements	
Credit risk	6.593
CVA Risk	662
Market Risk	4.063
Operational Risk	1.653
Additional capital requirements for the large exposure excess in the Trading Book	3.689
Total Capital Requirements	***16.660***
Capital Adequacy Ratio	***17,27%***

4. Pillar I Risks and Minimum Capital Requirements

The Company follows the Standardized Approach for the measurement of its Pillar I capital requirements for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The Risk Weighted Assets ("RWAs") and Capital Requirement calculated for each category of risk as at 31 December 2016 is presented in Table 4 below:

Table 4: RWAs and Capital Requirement by risk category

Risk Type	RWAs €'000	Pillar I Capital Requirement €'000
Credit	82.413	6.593
Market	50.784	4.063
of which Equity market risk	-	-
of which Commodity market risk	-	-
of which Interest rate market risk	-	-
of which FX market risk	*50.784*	*4.063*
Large exposures in the Trading Book	46.110	3.689
Operational	20.658	1.653
CVA	8.282	662
Total	**208.247**	**16.660**

4.1. Credit Risk

4.1.1 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. The Company's credit risk stems mainly from its open positions with customers, and its cash balances with banks and other financial institutions.

The Company operates a real-time mark-to-market trading platform with clients' profits and losses being credited and debited automatically to their accounts. Under the Company's policy the clients cannot owe the Company funds when losing more than what they have in their accounts. Client credit risk principally arises when a client's total funds deposited (margin and free equity) are insufficient to cover any trading losses incurred. In particular, client credit risk can arise where there are significant, sudden movements in the market, i.e. due to high general market volatility or specific volatility relating to an individual financial instrument the client has an open position in.

The Company's products are margin-traded. If the market moves adversely by more than the client's maintenance margin, the Company is exposed to counterparty credit risk. The Company sets principles in order to monitor and manage the credit risk on a real time basis. Under the Company's policy, if client funds are below the required margin level, client positions will be liquidated (margin call). The Company is exposed to counterparty credit risk also for its open positions with its parent company. The relevant trade exposure is reduced/mitigated via a netting agreement signed between the two parties.

Cash balances are mainly held with high credit quality financial and credit institutions. The Company has policies to limit the amount of credit exposure to any financial institution. An account with a bank or a financial institution will only be opened after suitable checks have been made to assess the risk level of that entity. Moreover, the Company has policies in place to ensure that customers place adequate funds prior to enabling them to enter into CFD transactions and that customers' cash balances are held with high credit rating banks and financial institutions or other parties internally assessed as healthy.

For calculating its Credit Risk capital requirement, the Company uses the standardized approach. The following table represents the Company's RWAs and minimum capital requirement for Credit Risk as at 31 December 2016, broken down by exposure class:

Table 5: Credit Risk summary table

Asset Classes	Risk-weighted amounts €'000	Minimum capital requirement €'000
Institutions	17.871	1.430
Corporates	29.202	2.335
Retail	35.337	2.828
Other Items	3	0
Total	**82.413**	**6.593**

The table provided below presents the total amount of Credit Risk exposures after accounting offsets and without taking into account the effects of credit risk mitigation as at 31/12/2016, as well as information on the average amount of Credit Risk exposures over 2016, broken down by asset class:

Table 6: Total amount of exposures after accounting offsets and Average amount of exposures

Asset Classes	**Original exposure amount, net of specific provisions €'000**	**Average exposure €'000**
Central Governments and Central Banks	-	-
Regional governments or local authorities	-	-
Public sector entities	-	30
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	89.341	73.623
Corporates	41.297	35.350
Retail	52.420	41.418
Secured by mortgages on immovable property	-	-
Exposures in default	-	-
Items associated with particularly high risk	-	-
Covered bonds	-	-
Short-term Claims on Institutions and Corporates	-	-
Collective Investments undertakings (CIUs)	-	-
Equity	-	-
Other Items	4	4
Total	**183.062**	**150.425**

The table that follows provides information on the residual maturity of the Company's Credit Risk exposures as at 31 December 2016:

Table 7: Residual Maturity of credit risk exposures, broken down by asset class

Allocation of exposures by residual maturity as at 31 December 2016	**Up to 3 months €'000**	**More than 3 months €'000**	**Total €'000**
Central Governments and Central Banks	-	-	-
Regional governments or local authorities	-	-	-
Public sector entities	-	-	-
Multilateral Development Banks	-	-	-
International Organisations	-	-	-
Institutions	89.341	-	89.341
Corporates	41.252	45	41.297
Retail	52.420	-	52.420
Secured by mortgages on immovable property	-	-	-
Exposures in default	-	-	-
Items associated with particularly high risk	-	-	-
Covered bonds	-	-	-
Short-term Claims on Institutions and Corporates	-	-	-
Collective Investments undertakings (CIUs)	-	-	-
Equity	-	-	-
Other Items	0	4	4
Total	**183.013**	**49**	**183.062**

The table below illustrates the geographic distribution of the Company’s exposures as at 31 December 2016:

Table 8: Geographic Distribution of exposures

Exposures per Asset Class per Country of incorporation of Counterparty	Australia €‘000	Cyprus €‘000	France €‘000	Israel €‘000	Switzerland €‘000	United Kingdom €‘000	Other €‘000	Total €‘000
Institutions	22.103	2.181	12.366		22.648	22.451	7.592	**89.341**
Corporates		45		41.252			-	**41.297**
Retail		108	1.360	0	3.647	1.194	46.111	**52.420**
Other Items		4						**4**
Total	**22.103**	**2.338**	**13.726**	**41.252**	**26.295**	**23.645**	**53.703**	**183.062**

The table presented below illustrates the distribution of the Company’s exposures by industry type as at 31 December 2016:

Table 9: Distribution of exposures by industry

Exposures by Asset Class by Industry Segment	Banking/Financial services €‘000	Private Individuals €‘000	Other €‘000	Total €‘000
Institutions	89.341	-		**89.341**
Corporates	41.254	-	43	**41.297**
Retail	-	52.420	-	**52.420**
Other Items	-	-	4	**4**
Total	**130.595**	**52.420**	**47**	**183.062**

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 can receive the most favorable risk weight of 20% if specific conditions are met.

As at 31 December 2016, exposures to corporate clients were risk weighted with 100% since they were all unrated and incorporated in countries with credit assessment up to credit quality step 5.

Furthermore, exposures to retail clients were assigned a risk weight of 75% in accordance with the provision of Article 123 of the CRR.

Finally, the Other Items category includes VAT input and petty cash. A risk weight of 100% was applied to VAT input, while 0% risk weight was assigned to petty cash, as per the requirements of the CRR.

The Company has used the Credit Quality Step mapping table below to map the credit assessment to Credit Quality Steps.

Table 10: Credit Quality Step Mapping Table

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 11: 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	22.103	22.103
CQS 2	35.003	35.003
CQS 3	20.783	20.783
CQS 4	-	-
CQS 5	1.073	1.073
CQS 6	1.107	1.107
Unrated	50.573	38.477
N/A	52.420	47.116
Total	**183.062**	**165.662**

Counterparty Credit Risk

The Company's total exposure in derivatives amounts to €93.672.195 which is calculated using the "Mark-To-Market Method" as the sum of the positive 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.

Any form of collateral recognised by the Company for the purposes of CRM is in the form of cash (funded credit protection). No collaterals in the form of guarantees or credit derivatives are used for credit risk mitigation purposes as at the reference date.

The minimum capital requirement calculated for the open derivative positions of the Company as at 31/12/2016 is presented in the following table below:

Table 12: 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	5.039	(5.039)	295.409	34.580	26.278	21.911	1.753
Equity Derivatives	8.896	(8.896)	614.334	45.756	39.703	34.071	2.726
FX Derivatives	2.105	(2.105)	368.096	5.786	4.639	3.905	312
Derivatives on Gold	1.189	(1.189)	94.349	2.132	1.530	1.214	97
Derivatives on Precious Metals	938	(938)	63.997	5.418	4.122	3.391	271
Total	**18.167**	**(18.167)**	**1.436.185**	**93.672**	**76.272**	**64.492**	**5.159**

Table 13: Funded credit protection

Asset Class	Value of exposure secured by financial collaterals €'000	Value of exposure secured by guarantees or credit derivatives €'000
Institutions	-	-
Corporates	12.096	-
Retail	5.304	-
Other Items	-	-
Total	**17.400**	**-**

Wrong-way risk

Wrong way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates having an adverse impact on the probability of default (PD) of a counterparty.

This risk is not currently measured as it is not anticipated to be significant given the existence of cash collateral/margin for almost all derivative transactions, which significantly reduce counterparty credit risk.

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 indicating that a loss event (or impairment) has occurred after the initial recognition of the asset(s) and that the loss event(s) has an impact on the estimated future cash flows of the financial asset(s) 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. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include, significant financial difficulties of the issuer/obligor and probability that the debtor will enter into 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 asset’s original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit or loss.

As at 31 December 2016, the Company did not have any material financial assets that were past due or impaired.

4.2. Other Risks

4.2.1. Market Risk

Market risk is defined as the risk that the value of an investment will decrease due to changes in market factors (such as currency fluctuations, changes in interest rates, and movements in equity and commodity 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 parent company 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 with the parent company.

The Foreign Exchange risk, Interest Rate risk and Price risk collectively form the Pillar I Market Risk.

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. The Company is exposed to foreign exchange risk arising from various currency exposures (mainly GBP, JPY, USD, CHF, NOK, AUD, CAD, NZD, SGD, SEK, HUF, CZK, DKK, PLN and AED). Furthermore, funds deposited by clients may not always be maintained in the originally deposited currency, but instead may be converted to other currencies on the basis of management’s decisions. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

As at 31 December 2016, the foreign currency positions arising from the client’s trading positions are fully hedged therefore the Company’s net open position in foreign currencies is due to balance sheet positions denominated and funded in currencies other than the Company’s reporting currency.

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 are undertaken, as and where applicable.

Price risk
This is the risk that the fair value of a financial instrument fluctuates as a result of changes in market prices other than due to the effect of transactional foreign currency exposures or interest rate risks. The Company has market price risk as a result of its trading activities in CFDs on stocks, indices, commodities, ETFs, etc. This risk is mitigated due to the fact that the trading positions are fully hedged with the parent.

4.2.2. Operational Risk

Operational risk is defined by the Basel Committee for Banking Supervision as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". Major sources of operational risk include inadequate operational processes, IT security, dependence on key service providers and implementation of strategic change, fraud, human error, recruitment training and retention of staff. The Company's systems and controls are evaluated, maintained and upgraded continuously. Furthermore, the Company has a "four-eye" structure and board oversight ensuring the separation of power and authority regarding vital functions of the Company.

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 program 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;
- Minimizing fraud activities and further enhancing AML/KYC procedures by using a third-party software system, which provides access to a database. The content of this database 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 publications;
- 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 applies the Basic Indicator Approach.

4.2.3. Compliance Risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. This risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

4.2.4. Litigation Risk

Litigation risk is the risk of financial loss, interruption of the Company's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the agreements and terms of business used by the Company to execute its operations.

4.2.5. Reputation Risk

The risk of loss of, or damage to, the Company's reputation arising from negative publicity concerning the Company (whether true or false) that may result to a reduction of clientele, revenue and/or legal cases against the Company. The Company applies procedures to minimize this risk.

5. Leverage ratio

The leverage ratio is a new monitoring tool which allows competent authorities to assess the risk of excessive leverage in their respective institutions. It is a simple, non-risk-based ratio that has been introduced in the Basel III framework to constrain the build-up of excessive leverage.

This new regulatory and supervisory tool has been running since 1st January 2015.

The leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regards to the leverage ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar I minimum capital requirement on 1 January 2018.

The Company's leverage ratio as at the reference date was 19,65%, the minimum allowable being 3%.

The table below provides a reconciliation of accounting assets and leverage ratio exposures:

Table 14: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts €'000
1	Total assets as per published financial statements	52.330
4	Adjustments for derivative financial instruments	75.505
7	Other adjustments	55.227
8	**Total leverage ratio exposure**	**183.062**

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

Table 15: Leverage ratio common disclosure

		CRR leverage ratio exposures €'000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	89.450
2	(Asset amounts deducted in determining Tier 1 capital)	-60
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**89.390**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	18.167
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	75.505
11	**Total derivative exposures (sum of lines 4 to 10)**	**93.672**
Securities financing transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
Other off-balance sheet exposures		
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**35.965**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**183.062**
Leverage ratio		
22	**Leverage ratio**	**19,65%**

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

Table 16: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures €'000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**89.390**
EU-2	**Trading book exposures**	**0**
EU-3	**Banking book exposures, of which:**	**89.390**
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	0
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	89.341
EU-8	Secures by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	45
EU-11	Exposures in default	0
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	4

Description of the processes used to manage the risk of excessive leverage

In order to manage the risk of excessive leverage, the Company ensures that its Leverage ratio is always above the current 3% recommended limit.

The Company monitors its leverage ratio on a monthly basis.

Factors that had an impact on the Leverage Ratio during the period

The leverage ratio of the Company over the financial year 2016 ranged between 8,35% to 19,65% with an average rate of 12,39%. The reason of this fluctuation is mainly due to the increase of the Company's capital base since June 2016 with the recognition of interim audited profits, the issuance of additional share capital and share premium, and the recognition of audited profits at the year-end.

6. Remuneration Policy and Practices

The Remuneration Policy is approved by the Board of Directors, after taking advice from the Compliance Function, and implemented by the Senior Management of the Company to promote corporate governance. The Board is responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policy and practices can create. Furthermore, this Policy benefits from the full support of Senior Management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures. Finally, this Policy adopts and maintains measures so as to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

6.1. Remuneration Committee

As per the requirements of paragraph 22 of the Directive, CIFs which are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities, must establish an independent Remuneration Committee. Based on the definition and relevant financial parameters established by CySEC's Circular C081, the Company is considered a 'significant CIF' and –as such– has taken all necessary steps to comply with the relevant legal requirements, including the establishment of an independent Remuneration Committee.

The Remuneration Committee is established to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation. Furthermore, the Remuneration Committee is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk management of the Company and which are to be taken by the Board of Directors. When preparing such decisions, the Remuneration Committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the Company and the public interest.

The Remuneration Committee should also recommend and monitor the level and structure of remuneration for senior staff. The definition of senior staff for this purpose includes the first layer of management below board level. The list of the subjects which the Remuneration Committee should review and make proposals or give opinions on, is found in the Company's IOM.

The Remuneration Committee is constituted in such a way as to enable it to exercise competent and independent judgement on remuneration policies and practices and the incentives created for managing risk, capital and liquidity. The members of the Remuneration Committee have appropriate knowledge, skills and expertise to fully understand and monitor the application of the Remuneration Policy and the risk implications for the Company. The Remuneration Committee has adequate access to relevant information from the Company, to the Risk Manager and to external expert advice. During the meetings of the Remuneration Committee, the Committee members shall be updated on relevant developments and information by the Company's Risk Manager and Compliance Officer, who will also be attending committee meetings. The members of the Committee shall change only upon the approval of the Board. The latter must replace immediately the retiring member of the Committee or appoint a temporary member until a permanent member is selected.

The Remuneration Committee shall convene at least bi-annually and whenever there is a change in the composition of the Board of Directors and/or Senior Management, as well as on an ad-hoc basis at the request of one of its members. Extraordinary meetings can be called by any member of the Remuneration Committee, as well as by the Risk Manager / Compliance Officer. The Committee shall report directly to the Board.

As of 31 December 2016 the members of the Remuneration Committee were the three Non-Executive Directors of the Company and the Compliance Officer/Risk Manager (*ex officio* and without any voting rights). During 2016 the Remuneration Committee convened three times.

6.2. 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 assessment of the performance of:

- The individual (quantitative as well as qualitative criteria are taken into account, including annual performance evaluation and performance ratings);
- 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 multi-year 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:

a) 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 and half-annually.

b) Performance checks and feedbacks: Managers provide support and feedback to the concerned staff annually and semi-annually, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.

   The performance review takes place annually and, among others, determines the level of the annual bonus to be awarded to the Company's staff members (if the decision of Senior Management is to proceed with annual bonus awards) and whether the fixed annual (one-off) bonus should be awared to the Compliance Officer.

6.3. Design and Structure of Remuneration

The employee's total remuneration consists of a fixed component and under certain conditions – mentioned above – an annual bonus remuneration.

Fixed Remuneration
Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and is set at levels which reflect the educational background, 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 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 consists of a variable component represented by an annual bonus remuneration, the amount of which will be determined and awarded to staff members at the Company's sole discretion. The staff members of the Company may be awarded a variable amount of bonus

remuneration on an annual basis, at the discretion of the Company and the Senior Management. The annual bonus is awarded following an annual employee appraisal/ evaluation by the staff member's supervisor and the Company's CEO and/or CFO.

During 2016, no remuneration was paid or was awarded under deferral arrangements (with vested or unvested portions). In addition, the Company did not pay or award any sign-on or severance payments during the year.

Factors taken into account for the remuneration of the Company's employees are the following:

- The staff member's performance of the duties and responsibilities specified in the relevant job description;
- Performance indicators, objectives and targets, developed for each department;
- The staff member's contribution to the work of his/her department;
- The staff's member's punctuality and efficiency; and
- The overall behaviour, morals and credibility of the staff member.

The table below provides 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 Company:

Table 17: Quantitative information on remuneration

Description	**No. of beneficiaries**	**Fixed Remuneration €'000**	**No. of beneficiaries**	**Variable Remuneration €'000**	**Total Remuneration €'000**
Senior Management - Directors	2	206	2	203	409
Heads of Departments	4	276	4	187	463
Non-Executive Directors	4	16	4	-	16
Total	**10**	**498**	**10**	**390**	**888**

Notes:

1. The variable remuneration paid during 2016 was entirely in the form of cash.
2. The variable component did not exceed 100% of any employee's fixed component of total remuneration.

7. Appendices

Appendix I – Own Funds Calculation

Table 18: Transitional and Fully Phased-in Own Funds Calculation

At 31 December 2016	Transitional Definition €'000	Fully – Phased in Definition €'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	14.991	14.991
Retained earnings	21.034	21.034
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**36.025**	**36.025**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	-	-
Intangible assets (net of related tax liability)	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(60)	(60)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(60)**	**(60)**
Common Equity Tier 1 (CET1) capital	**35.965**	**35.965**
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**35.965**	**35.965**
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	**35.965**	**35.965**
Total Risk Weighted Assets	**208.247**	**208.247**
Capital ratios and buffers		
Common Equity Tier 1	17,27%	17,27%
Tier 1	17,27%	17,27%
Total Capital	**17,27%**	**17,27%**

Definitions:
The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

The Total Capital ratio (TC) is the own funds of the Company expressed as a percentage of the total Risk Weighted Assets for covering Pillar I risks.

Appendix II - Balance Sheet Reconciliation

Table 19: Balance Sheet Reconciliation

Balance sheet reconciliation	**Year end 2016 €'000**
Capital and reserves	
Share capital	350
Share premium	14.641
Retained earnings	21.034
Total Equity as per Audited Financial Statements	**36.025**
(Less: ICF Contribution)	(60)
Total Own funds as per COREP	**35.965**
Difference	-