Pillar 3 Disclosure

31 December 2016

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1. OVERVIEW

1.1 Introduction

The EU's Capital Requirements Directive (CRD), as implemented in the United Kingdom by the Financial Conduct Authority (FCA) introduced consistent capital adequacy requirements for authorised credit institutions and investment firms, through a regulatory framework comprising the following three Pillars:

- **Pillar 1** – Sets out the minimum capital requirements for measuring a firm's credit, market and operational risk.

- **Pillar 2** – Requires a firm to undertake an Internal Capital Adequacy Assessment Process (ICAAP) to establish whether its Pillar 1 capital is adequate to cover all the risks it faces and, if not, to calculate the additional capital required.

- **Pillar 3** – Requires firms to make an external disclosure of their regulatory capital and key risk exposures, so allowing market participants to assess key information on a particular firm's capital adequacy and its risk and control processes.

The FCA's rules for implementing Pillar 3, as set out in the EU Capital Requirements, are contained in Articles 431-455 of the Capital Requirements Regulation (CRR) (Regulation (EU) No. 475/2013).

The information contained in this Pillar 3 Disclosure has been prepared in accordance with the CRD/CRR. However, where a particular disclosure is deemed confidential or proprietary by the Plus500UK Board of Directors (the "Board"), such information can be withheld, provided the reason for the omission is stated.

Quantitative disclosures are made as at 31 December 2016

1.2 Scope and Frequency of Disclosures

The disclosures in this Pillar 3 document are made in respect of Plus500UK Limited (Plus500UK), a wholly owned subsidiary of Plus500 Limited (Plus500) which is incorporated in the UK and listed on AIM, a sub-market of the London Stock Exchange.

The Company provides online trading facilities to its Retail customers, via Plus500's proprietary trading platform, in Contracts for Differences (CFDs) on Commodities, Stocks, Options, Exchange Traded Funds (ETFs) and Foreign Exchange (FX).

The Firm's Pillar 3 disclosures are published on an annual basis, as soon as reasonably practicable following completion of its annual financial statements. Plus500UK will update its Pillar 3 disclosure more frequently than annually if material changes to its business model and/or regulation occur such would affect the calculations its regulatory capital requirement.

1.3 Basis of Disclosures

The disclosures in this Pillar 3 document are made on a solo basis.

1.4 Location and Verification of Disclosures

Plus500UK's Pillar 3 disclosures are reviewed and approved by the Board before publishing on the Firm's website (www.plus500.co.uk). The disclosures are not subject to external audit.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 Introduction

Risk Management is embedded throughout Plus500UK, with the overall risk appetite and risk management strategy being approved by the Board and then disseminated throughout the business as appropriate.

2.2 Board of Directors

The Board's responsibilities in relation to risk management are to set Plus500UK's risk appetite and to ensure that it has an appropriate and effective framework in place for monitoring the ongoing processes for identifying, evaluating, managing and reporting the significant risks it faces.

The Board's responsibilities in relation to risk management can be summarised as:

- Setting the Firm's Risk Appetite and monitoring via regular Management Information (MI);
- Establishing, reviewing and challenging effective systems and controls for:
    - Compliance with all applicable rules and regulation
    - Countering the risk of financial crime
    - Ensuring business continuity
    - Ensuring adequate records are maintained
- Approving policies and procedures for its business operations
- Challenging and approving the Firm's Internal Capital Adequacy Assessment Process (ICAAP)

Given the current nature, scale and complexity of its business, Plus500UK's Board does not have separate Executive Committees to deal with separate risk matters e.g. a Risk Committee, a Nominations & Remuneration Committee nor a Client Money Committee. Instead, management of risk lies with the Board.

2.3 Risk & Control Functions

The following functions provide additional assurance to the Board by compiling periodic reports and MI for the Board's consideration:

- **Finance** – The Chief Finance Officer is responsible for maintaining accurate financial records and ensuring the business operates in compliance with all applicable legislation, including the client money rules and for ensuring the Firm's regulatory and tax submissions are met.

- **Compliance** – The Compliance Oversight & Money Laundering Reporting Officer Function is responsible for ensuring that Plus500UK operates in compliance with the various regulatory and anti-financial crime obligations to which it is subject. This is achieved through the undertaking of periodic gap analyses and regular compliance monitoring. Findings arising from such compliance reviews are reported to the Board, who monitor the recommended actions through to completion.

- **Internal Audit** – Due to the nature, scale and complexity of its business, the Company does not have a dedicated Internal Audit function and has delegated much of the task of monitoring the appropriateness and effectiveness of the Firm's systems and controls to the Compliance function.

2.4 Risk Appetite Statement & Key Risk Indicators

The Firm's strategic objectives are:

- Maintaining its market position as a leading CFD provider
- Continuing to provide high quality Client Service
- Innovative and leading trading platform
- Growing the customer base
- Continuing to trade profitably

In addition to setting objectives, the Board has also set a Risk Appetite Statement (RAS) which both defines and articulates the level and types of risk the Board is willing to tolerate in order to achieve its strategic objectives. To monitor whether a particular risk is approaching or has exceeded its tolerance levels, the Board has put in place a number of Key Risk Indicators (KRIs). These KRIs are reviewed by the Board as part of their Management Information and serve as early warning indicators that mitigating measures may need to be taken.

2.5 Principal Risks to Plus500UK

The key financial risks arising from the Firm's business activities, from which the KRIs derive are identified as:

- Market risk
- Operational risk
- Capital risk
- Liquidity risk
- Credit & counterparty risk

For further information on Plus500UK's principal risks, see Section 4 of this Pillar 3 disclosure and the Firm's Annual Report and Financial Statements, available at Companies House.

3. CAPITAL RESOURCES

The Company's capital resource requirement is calculated according to the FCA rules that apply to an IFPRU 125K firm. The financial data represents the Company's capital resources and risk exposure disclosed in the Company's 2016 Financial Statements.

3.1 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to meet regulatory capital requirements at all times.

The Company's capital management objectives are primarily met by managing the business risks that the Company faces on a regular basis.

There have been no changes to the Company's approach to capital management during the year.

3.2 Tier 1 Capital

Relating to the Company's own capital resources, Tier 1 Capital comprises equity share capital and reserves.

TABLE 1: Common Equity Tier 1 Capital (2016)

Capital and reserves	£
Called-up share capital	10,000,000
Retained earnings	9,864,796
Total equity	**19,864,796**

3.3 Tier 2 Capital

The Company does not have Tier 2 Capital.

3.4 Internal Capital Adequacy Assessment Process (ICAAP)

Plus500UK undertakes an internal assessment of its capital requirements via the ICAAP on at least an annual basis, which is challenged and approved by the Board.

The ICAAP assesses the level of capital required to adequately support all relevant current and future risks faced by the Firm. It also assists the Firm to determine its Pillar 2 requirement, which is the additional amount of capital it should hold against the risks not fully covered by the Pillar 1 requirement.

The ICAAP is periodically reviewed throughout the year to ensure that it remains up to date with regards to all identified risks.

The ICAAP may be reviewed by the FCA, who may set the Individual Capital Guidance (ICG) capital requirements for the Firm as part of its Supervisory Review and Evaluation Process (SREP). The ICG provides guidance on the amount and quality of capital resources that the FCA believes the Firm should hold under the overall financial adequacy rule. Plus500UK is not obliged to make a public disclosure of any ICG that may be imposed.

4. PRINCIPAL RISKS

The principal activities of the Company outlined in Section 1.2 of this disclosure give rise to financial risks in the ordinary course of business. Previously summarised in the RAS in Section 2.5, the primary financial risks arising from the Company's business activities are identified and detailed below, in addition to the measures taken to mitigate such risks.

4.1 Market Risk

Market risk is the risk that the value of a financial instrument will change due to adverse moves in market factors. As the Company hedges all of its positions back-to-back with its parent, Plus500, it is not exposed to any market risk.

4.2 Operational Risk

Operational risk is the risk of financial loss due to inadequate or failed internal process and systems. It can also arise from human error, or external events over which the Company has no influence. As operational risk can never be fully eliminated Plus500UK manage operational risk through robust systems, controls, policies and procedures.

a) **Processes -** Plus500UK has documented policies and procedures for all its key operating processes, which are performed in line with all applicable regulatory requirements. Periodically, consultants will be hired to provide assurance for the methodology utilised and the soundness of the controls applied.

b) **People** - Although Plus500UK is committed to upholding the highest ethical standards, complying with all regulatory obligations and acting in the best interest of its customers, it is still exposed to risks arising from human error, potential conflicts of interest and, in extreme cases, from fraudulent activity in just the same way as any other company.

   Some of the measures employed by Plus500UK to mitigate its exposure to operational risk caused by its people include:

   - The architecture of Plus500UK's proprietary trading systems does not allow for ad-hoc human decisions, nor manipulations;
   - Payments and handling of client money is assigned to specific individuals, with authorisation limits and sign-off protocols in place;
   - Application of a rigorous recruitment process, including background checks by an independent third party, to verify the fitness of candidates.

c) **Systems** – Due to the nature of the service offered by Plus500UK, it is highly dependent on the electronic platform provided by its parent, Plus500. The Group, recognising the potential impact of system unavailability has created system backups which are kept at geographically diverse locations. The system has a comprehensive Disaster Recovery Programme in place and penetration testing takes place periodically throughout the year.

4.3 Capital Risk

The Company manages its capital resources on the basis of regulatory capital requirements (Pillar 1) and its own assessment of capital required to support all material risks throughout the business (Pillar 2). Further information on the Company's capital resources is detailed in Section 3.

4.4 Liquidity Risk

Liquidity risk is the risk that the Company will be unable to make the required payments on its obligations as and when they fall due, or can secure resources to do so at excessive costs. The Company's liquidity risk will increase as the level of cash held on deposit with banks and financial institutions decreases relative to its obligations.

The Company, at all times, holds such funds or makes arrangements to have access to such funds, enabling it to meet all of its obligations in a timely manner. Due to the high level of cash and cash equivalent reserved by the Company in comparison to its liabilities, no additional sources of funds are currently deemed necessary. The Firm maintains a net liquid asset position, which provides a liquidity buffer.

4.5 Credit & Counterparty Risk

Credit and counterparty risk is the risk of a financial loss to the Company arising from a counterparty's failure to pay or otherwise meet a financial obligation. The risk includes loss of principal, disruption to cash flows and increased collection costs.

Plus500UK employs the Standardised Approach under CRR Title II, Chapter 6, and Articles 111 – 141 to calculate its credit risk exposure amounts.

Plus500UK does not operate a trading book and its credit risk stems from two main sources: customers and banks/financial institutions as follows:

a) **Customers**

The Company operates a margin system which reduces the credit risk exposure arising from acting as a principal in the trades of its customers. The system requires the customer to deposit funds prior to trading that will be used as collateral against possible losses. Should a client's equity fall below the maintenance margin required to keep their positions open, and the client does not provide the necessary additional margin, the client's positions will be liquidated until the remaining equity exceeds the required maintenance margin. The business model of the firm limits the exposure to client credit risk, but does not eliminate it entirely as realised credit risk can still occur if clients realise losses greater than the amount deposited prior to trading, due to large price movements. To date, such losses have been infrequent and their aggregated impact has been insignificant compared to the firm's capital. The firm believes that the benefits of their policy of not allowing clients to be impacted by losses that exceed their total funds invested, by making a positive adjustment to their accounts, far outweighs any potential negatives.

b) Banks and financial institutions

The Company holds accounts in several banks and financial institutions to facilitate the collection and payment of funds from/to customers and other counterparties. 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. Those assessments are reviewed annually.

The company follows a Counterparty Default Risk Rating process that assesses (on at least an annual basis) whether the firms to whom the company are exposed are of an acceptable risk. Indicatively, as at December 2016 100% of the Firm's cash and cash equivalents were held at institutions and banks with "safe" determinations.

TABLE 2: Counterparty Credit Risk Exposures (2016)

	Maximum exposure to credit risk (£)
Cash held with financial institutions	29,589,015
Financial derivatives owed by customers	6,442,763
Other debtors and prepayments	936,391
Total	**36,968,169**

5. REMUNERATION DISCLOSURE

The Company is required to comply with the IFPRU Remuneration Code ("the Code"), as set out in the FCA Handbook and in accordance with Article 450 of the CRR.

The FCA have adopted a proportionate approach to implementing the Code, which allows firms to comply in a way that is appropriate to their size, internal organisation and nature, scope and complexity of its activities.

Plus500UK meets the definition of a Proportionality Level Three firm and, as such, its disclosures in respect of remuneration reflect these requirements.

5.1 Decision Making Process

Due to the nature, scale and complexity of its business, Plus500UK has not formally appointed a Remuneration Committee. Instead, all decisions concerning remuneration are taken by the Board, in consultation with Senior Management.

5.2 Link between pay and performance

Plus500UK's remuneration policy promotes staff retention and loyalty. Remuneration is reviewed on an annual basis as part of the annual yearly appraisal process, during which an individual's competency and performance are assessed. Variable remuneration is discretionary, is linked to an individual's performance and is offered in return for excellence, where Company profitability allows.

5.3 Code Staff & Directors' Aggregate Remuneration

	Total Fixed £	**Total Variable £**	**Total no. of staff**
Code	557,750	480,000	7
Executive	207,750	200,000	4

6. FURTHER INFORMATION

Should you require any further information, please contact:

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