Disclosure of Information (Pillar III)

For the year ended December 31st, 2017

a trading name of

L. F. Investment Limited

CySEC License no. 271/15

25th April 2018

Under Directive 144-2014-14 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

THIS REPORT WAS PREPARED BASED ON THE
AUDITED FINANCIAL STATEMENTS FOR 2017

Contents

1. INTRODUCTION

1.1 Corporate information

L. F. Investment Ltd (the “Company”) is a Cyprus Investment Firm regulated by the Cyprus Securities and Exchange Commission (“CySEC”) with license number 271/15.

The Company has the license 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) Money-market instruments. (2) 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.
Execution of orders on behalf of clients	Foreign exchange services where these are connected to the provision of the above investment services	(3) 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).
Portfolio Management		(4) Financial contracts for differences (for differences in relation to MiFID instruments, currencies, interest rates or other financial indices).

1.2 Scope of Application

These disclosures are prepared by the Company in accordance with the Capital Requirements Directive (CRD IV) EU No. 2013/36 and the Capital Requirements Regulations (CRR) EU No. 575/2013. CRD IV represents the European Union's application of Basel III and CRR provides the detailed requirements for complying with CRD IV.

CRD IV comprises three "Pillars":

- Pillar I sets minimum capital requirements to meet credit, market and operational risk;
- Pillar II requires firms and their supervisors to consider whether additional capital should be held to cover risks not already covered by Pillar I requirements; and
- Pillar III seeks to improve market discipline by requiring firms to disclose certain information on their risks, capital and risk management.

These disclosures fulfill the Company's obligations under Pillar III. They aim to provide material information for market participants to assess the Company's:

- risk management
- remuneration policy
- own funds
- capital requirements

According to Article 95 (1) of the Regulation "*For the purposes of Article 92(3), investment firms that are not authorized to provide the investment services and activities listed in points (3) and (6) of Section A of Annex I to Directive 2004/39/EC shall use the calculation of the total risk exposure amount specified in paragraph 2*".

Based on the CIF authorization it is expected to use the calculation of the total risk exposure specified in Article 95(2) of the Regulation.

The disclosures are prepared on a 'solo' basis and the reporting currency of the Company is the Euro.

These disclosures relating to the year ended 31 December 2017 are available on the Company's website at www.purple-trading.com and are subjected to review by the Company's external auditors who report to CySEC accordingly.

1.3 Disclosure Policy

This Disclosure & Market Discipline Report ("the Report") has been prepared by L.F. Investment Limited ("LFI" or "the Company"). The information that the Company discloses herein relates to the year ended 31 December 2017.

Information to be disclosed

This Report contains information in relation to the risks that L.F. Investment Limited faces and the strategies it has in place to manage and mitigate those risks, its own funds and its capital adequacy, as detailed in the Regulation.

Reporting Frequency

The Company's policy is to publish the disclosures required on an annual basis. Should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements, the frequency of disclosure will be reviewed.

Preparation and Availability of Report

This Report is prepared annually and is available electronically on the Company's website (www.purple-trading.com) four months after the financial year end. A hard copy of this Report is available upon request.

Verification

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval.

The Remuneration disclosures as detailed in Section 8 of this document have been reviewed by the full Board which has responsibility for the Remuneration Policy in the absence of a Remuneration sub-Committee.

2. CORPORATE GOVERNANCE – BOARD AND COMMITTEES

2.1 Board Risk Management Declaration

The Board of Directors 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 financial or reputational loss. The Board considers that the Company has in place adequate systems and controls having regard to the Company's risk profile and business strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2.2 Board of Directors

The Board comprises of two executive directors and three non-executive directors.

Full name of Director	Position/Title	Capacity	Country
Jan Roh	Chief Executive Officer	Executive Director, "4 eyes"	Cyprus
David Varga	General Manager	Executive Director, "4 eyes"	Cyprus
George Koumas	Director	Non-Exe. Director, Independent	Cyprus
Nikos Efstathiou	Director	Non-Exe. Director, Independent	Cyprus
Evgeni Razumov	Director	Non-Exe. Director	Cyprus

2.3 Board recruitment policy

Recruitment of Board members combines an assessment of both technical capability and competency skills referenced against the Company's regulatory and operational framework. It seeks to resource the specific experience and skills needed to ensure the optimum blend (diversity) of individual and aggregate capability having regard to the Company's long term strategic plan. Board recruitment is subject to the approval of the CEO and General Manager. Regulatory approval is coordinated through the Compliance Officer.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfil their obligations. Prior to their appointment the proposed persons should obtain the approval of the Commission.

Main factors influencing the decision to propose the appointment of potential Directors include:

- Integrity and honesty
- High business acumen and judgment
- Knowledge of financial matters including understanding of financial statements and important financial ratios
- Knowledge and experience relevant to financial institutions.
- Risk Management experience
- Specialized skills and knowledge in finance, accounting, law, or related subject.

2.4 Number of Directorships held by the Board members

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

Full Name of Director	Position/Title	Executive	Non-Executive
Jan Roh	Chief Executive Officer	1	0
David Varga	General Manager	1	0
George Koumas	Director	0	2
Nikos Efstathiou	Director	0	2
Evgeni Razumov	Director	0	1

2.5 Governance Committees

The Company has not formed any governance committees other than the Investment Committee since the current scale and complexity of its operations does not require such level of elaborate governance oversight to adequately monitor its operational effectiveness and its potential risks.

2.6 Diversity policy

The Company is committed to promoting a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organization.

2.7 Information Flow on risk to the management body

The information flow on risk to the management body is achieved as follows:

- An Internal Audit report is prepared on an annual basis and presented to Senior Management and the Board.

- The Risk Manager submits his reports to the Senior Management and Board on a regular basis, and at least annually, indicating whether the appropriate remedial measures have been taken in the event of any deficiencies.

- An Anti-Money Laundering and Terrorist Financing report is prepared on an annual basis by the Risk Manager and presented to Senior Management and the Board.

- Financial statements are audited by the Company's external auditors on an annual basis. The Board also submits them to CySEC.

- A suitability report is prepared annually by the Company's external auditors and submitted to the Board of Directors.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's risk management policies are established to identify and analyse the risks faced by the Company. Their purpose is to set appropriate risk limits and controls, to monitor risks and adherence to limits, to manage the Company's financial risk and to minimize the effects of fluctuations in financial markets on the value of the Company's financial assets and liabilities. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

3.1 Risk Identification

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles, which should be applied.

3.2 Risk Assessment

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level.

3.3 Risk Management Function

The Risk Management Function is headed by the Risk Manager who reports directly to the Board. The Risk Management function has been outsourced to a professional with specific expertise and structure to provide analysis, challenge, understanding, and exercise oversight for each of the principal risks faced by the Company.

3.4 Internal Audit

The Internal Audit Function examines and evaluates the adequacy and effectiveness of the Company's policies, procedures and internal control mechanisms in relation to its regulatory obligations. The Company has outsourced its internal audit function to a specialized services provider. On-site inspections are carried out at the Company's headquarters, recommendation reports are issued and compliance with regulatory requirements is verified. An Internal Audit report is prepared on an annual basis and presented to Senior Management and the Board. The approved report is then submitted to CySEC.

3.5 Money Laundering and Compliance Officer

The Anti-Money Laundering and Terrorist Financing Function establishes and implements adequate policies and procedures to detect the risk of the Company failing to comply with Anti-Money Laundering regulations and implementing relevant policies and procedures.

The AMLCO responsibilities are:

i. Designing the internal practice, measures, procedures and controls relevant to the prevention of money laundering and terrorist financing and describing and explicitly allocating the appropriateness and the limits of responsibility of each department that is involved in the abovementioned.

ii. Developing and establishing the customers' acceptance policy and submitting it to the Board of Directors for consideration and approval.

iii. Preparing a risk management and procedures manual regarding money laundering and terrorist financing.

iv. Monitoring and assessing the correct and effective implementation of the AML policy, the practices, measures, procedures and controls and in general the implementation of the AML risk management and procedures manual.

v. Receiving information from the Company's employees which is considered to be knowledge or suspicion of money laundering or terrorist financing activities or that might be related with such activities.

vi. Evaluating and examining the information received as per the previous point, by reference to other relevant information and discussing the circumstances of the case with the informer and, where appropriate, with the informer's superiors. The evaluation of this information is being done on an "Internal Evaluation Report".

vii. If following the evaluation described in the previous point, the AMLCO decides to notify MOKAS, then he completes a written report and submits it to MOKAS the soonest possible. It is provided that, after the submission of the AMLCO's report to MOKAS, the accounts involved and any other connected accounts, are closely monitored by the AMLCO and following any directions from MOKAS, thoroughly investigates and examines all the transactions of the accounts.

viii. If following the evaluation described above the AMLCO decides not to notify

MOKAS, then he fully explains the reasons for such a decision on the "Internal Evaluation Report".

ix. Acting as the first point of contact with MOKAS, upon commencement and during an investigation as a result of filing a report to MOKAS.

x. Ensuring the preparation and maintenance of the lists of customers categorized following a risk based approach, which include the names of customers, their account number and the date of the commencement of the business relationship. Moreover, ensures the updating of the said lists with all new or existing customers, in the light of additional information obtained.

xi. Detecting, recording and evaluating, at least on an annual basis, all risks arising from existing and new customers, new financial instruments and services and updates and amends the systems and procedures applied by the Company for the effective management of the aforesaid risks.

xii. Evaluating the systems and procedures applied by a third person on whom the Company relies for customer identification and due diligence purposes and approves the cooperation with that person.

xiii. Ensuring that the branches and subsidiaries of the Company that operate in countries outside the European Economic Area, have taken all necessary measures for achieving full compliance with the provisions of legislative requirements, in relation to customer identification, due diligence and record keeping procedures.

xiv. Providing advice and guidance to the employees of the Company on subjects related to money laundering and terrorist financing.

xv. Acquiring the required knowledge and skills for the improvement of the appropriate procedures for recognizing, preventing and obstructing any transactions and activities that are suspected to be associated with money laundering or terrorist financing.

xvi. Determining the Company’s departments and employees that need further training and education for the purpose of preventing money laundering and terrorist financing and organizing appropriate training sessions/seminars. In this regard, prepares and applies an annual staff training program, and assesses the adequacy of the education and training provided.

xvii. Preparing correctly and submits timely to the CySEC the monthly prevention statement and provides the necessary explanation to the appropriate employees of the Company for its completion.

xviii. Responding to all requests and queries from MOKAS and the Commission, providing all requested information and fully cooperating with MOKAS and the Commission.

xix. Maintaining a registry which includes the reports of points v, vi and vii, and relevant statistical information (department that submitted the internal report, date of submission to the AMLCO, date of assessment, date of reporting to MOKAS), the evaluation reports of point v and all the documents that verify the accomplishment of the relevant duties.

In addition, a report on Anti-Money Laundering and Terrorist Financing is prepared on an annual basis and presented to Senior Management and the Board.

3.6 Internal Capital Adequacy Assessment Process

Capital adequacy is monitored monthly by the Finance Department with quarterly reporting provided to the CySEC. In addition, capital planning forms a key element of the Company's budgeting and Long Term Plan (LTP) processes. As part of the LTP, the Finance Department prepares a forward looking capital plan. The capital plan ensures the Company has sufficient Own Funds to support the business and strategic objectives.

During the year the Company has established a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) process. This process constitutes the Company's internal assessment of capital adequacy and is designed to address the requirements under Pillar 2 of the Basel framework. The ICAAP process considers all of the risks faced by the Company, the likely impact of them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against these risks, both currently and in the future. The Company operates at all times over and above the required minimum capital requirements at the level that it considers adequate to mitigate the various risks to which the business is exposed. The Company's ICAAP provides a background to its business, projected financial and capital plans, the approach to managing risk, the impact of sensitivities and scenarios on the plans and the overall approach to managing capital. The reference date for the report is the 30th June 2017 and is formally approved by the Company's BOD.

3.7 Declaration of 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 minimize loss.

3.8 Stress Testing

Stress Testing is the process by which the Company's business plans are subjected to severe stress scenarios in order to assess the impact of those potential stresses on the Company's business including the projected capital and liquidity positions.

The Company has assessed the following risks as material:

4. MARKET RISK

Market risk is the risk associated with the Company's balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risk include:

- Equity market prices
- Real estate market prices
- Interest rates
- Currency exchange rates

The Company manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Company's risk tolerance as well as regulatory constraints.

The Company is not exposed to any risks resulting from price fluctuations on equity securities, real estate or capital markets. Moreover, it is highly unlikely that it will be exposed to such risks in the future considering its current authorization (not licensed to trade on own book).

The Company is not exposed either to any risk resulting from changes in interest rates or to any risk of loss from changes in exchange rates as it receives all of its commissions in its base currency (the Euro).

5. CREDIT RISK

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. Generally, credit risk can be derived from the following areas:

- Cash and cash equivalents
- Debt securities
- Receivables
- Derivatives

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Company has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Company uses the ratings assigned by external rating agencies when available.

The Company is primarily exposed to credit risk on trade receivables. The Company assesses on a regular basis the recoverability of these receivables to monitor this risk.

The table below shows the maximum exposure to credit risk:

	Maximum exposure to credit risk
	2017
	€000
Cash and cash equivalents	369
Receivables & Other Assets	36
Investors Compensation Fund	n/a*
Total maximum exposure	405
Total risk-weighted exposure	118
Credit Risk (8% of total risk weighted exposure)	**9**

** Due to a revision in regulatory guidance the balance with the ICF is deducted from both risk-weighted assets and available capital.*

6. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. In general, operational risk can be derived from the following areas:

- Employee errors
- System failures
- Fire, floods or other losses to physical assets
- Fraud (internal / external) or other criminal activity

The Company's exposure to operational risk is limited to the extent of its current scale and complexity. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk. Overall planning, coordination, and monitoring is centralized, however, most operational risks are managed within the departments in which they arise.

In addition to its overall framework, in order to mitigate operational risks, the Company has specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity and combating fraud.

Following the implementation of the Regulation 575/2013 on prudential requirements for credit institutions and investment firms and the amendment of the Regulation (EU) No. 648/2012 ('the Regulation'), the amendments in the Investment Services and Activities and Regulated Markets Law (December 19, 2014) and the issuance of Directives DI2017-144-14 and DI2017-144-15, the Company has been categorized as an investment firm that falls under Article 95(1) of the CRR. Given its categorization, the Company has adopted the Fixed Overheads Exposure Risk calculation method to calculate its total risk exposure amount.

The table 2 in section 9 below shows the Total Risk Exposure which takes into account the exposure to Fixed Overheads (equal to 12.5 times the Fixed Overheads Requirement).

The fixed overheads exposure is based on the fixed overheads of the preceding year adjusted for items listed below:

- fully discretionary staff bonuses
- employees', directors' and partners' shares in profits, to the extent that they are fully discretionary
- other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary
- shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent upon the actual receipt of the commission and fees receivable
- fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions
- fees to tied agents in the sense of paragraph 1, Section 2 of Part I of Law 114(I)/2007, where applicable, notwithstanding the provisions of Note (i)
- interest paid to customers on client money
- non-recurring expenses from non-ordinary activities

7. OTHER RISKS

7.1 Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company assesses, monitors, and manages its liquidity needs on an ongoing basis.

The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

7.2 Strategic Risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long-term plan of action designed to allow the

Company to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Improper implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Risk considerations are a key element in the strategic decision-making process. The Company assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

7.3 Reputation Risk

Risks to the Company's reputation include the risk that an act or omission by the Company or any of its employees could result in damage to the reputation or loss of trust among its stakeholders. Every risk type has potential consequences for the Company's reputation, and therefore, effectively managing each type of risk helps reduce threats to its reputation.

Additionally, the Company strives to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of the Company, which includes integrity and good business practice. The Company centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

7.4 Business Risk

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. The Company continually analyses economic indicators and forecasts with a view to minimize the Company's exposure to business risk. These are taken into consideration when implementing the Company's strategy.

7.5 Capital Risk

This is the risk that the Company will not comply with capital adequacy requirements. 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. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company.

The Company is further required to report on its capital adequacy on a regular basis and has to maintain at all times a minimum capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements.

7.6 Regulatory Risk

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Internal Operations Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company’s Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company’s control framework at least annually. Therefore, the risk of non-compliance is assessed with sufficient regularity.

7.7 Legal and Compliance Risk

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews performed by the Compliance Officer. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company’s strategic targets and goals. In addition, the board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

7.8 Concentration Risk

This includes large individual exposures whose likelihood of default is driven by common underlying factors. Trade receivables are made up entirely of balances due from liquidity providers, whose recoverability is assessed by management on a regular basis. An add-on capital charge for concentration risk under Pillar II is not considered necessary.

7.9 Information Technology (I.T.) Risk

I.T. risk could occur as a result of inadequate information technology and processing, or arise from an inadequate I.T. strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been brought within acceptable limits.

7. **REMUNERATION POLICY**

The purpose of the Company's Remuneration Policy is to ensure the consistent implementation of the MiFID conflicts of interest and conduct of business requirements in the area of remuneration.

The remuneration policy and practices of the Company are designed in such a way to avoid exposing the Company into excessive or undue risks. Moreover, they are targeted to avoid creating incentives that may lead relevant persons to favor their own interest, or the firm's interests, to the potential detriment of clients. The Company has set up adequate controls for compliance with the regulatory requirements on the remuneration policy and practices. The controls are implemented throughout the Company and subject to periodic review.
These address all relevant factors such as:

- the role performed by relevant persons
- the type of products offered
- the methods of distribution
- the fixed and variable components of the total remuneration are appropriately balanced
- appropriate criteria to assess the performance of relevant persons (financial (quantitative) and non-financial (qualitative) criteria)

The Board of Directors is responsible for determining and approving the Company's remuneration policy and practices. The Board of Director's is also responsible to monitor the Company's compliance towards the approved policy and to identify and work towards any deficiencies. The Board of Directors meets at least once a year, and whenever the need arises, to discuss issues and to reformulate the policy where this is necessary on account of changes and developments, whether internal to the Company or external in its market environment. Any changes in the Company's remuneration policy can be brought about only as a result of a decision of its Board of Directors.

Total remuneration for the year 2017 was €521.935 of which €132.950 was payable to directors. No severance payments and variable or deferred remuneration were awarded during the year.

8. OWN FUNDS

At 31st of December 2017 the Company's own funds i.e. capital base was as follows:

Table 1: Capital Base	€
Share Capital	400.000
Share Premium	99.441
Retained Earnings / (Losses)	(167.225)
Regulatory Deductions – Investor Compensation Fund Balance	(69,447)
Common Equity Tier 1 Capital	**262,771**
Additional Tier 1 Capital	NIL
Tier 2 Capital	59,000
Total Capital (Own Funds)	**321,771**
Total Eligible Capital	**321,771**

As can be seen above on 31 December 2017 the Company maintained both Common Equity Tier 1 (CET 1) and Tier 2 capital as own funds. CET1 comprises paid up share capital, share premium, retained earnings less any proposed dividends, translation differences and un-audited current period losses. Current period profits are not added to own funds unless they are audited. Tier 2 Capital as at 31st December 2017 comprised a shareholder loan bearing no interest and repayable in a single payment in five years subject to certain conditions including its subordination to senior debt that may be outstanding at the time. Eligible Tier 2 capital is restricted to 33% of Tier 1 Capital.

Authorized Capital

The authorized capital of the Company as at 31 December 2017 was 400.000 ordinary shares of €1 each.

Issued and fully paid

The issued ordinary share capital of the Company as at 31 December 2017 amounted to €400.000 with a share premium of €99.441.

Capital Adequacy Ratio

As at 31 December 2017, the Company's Capital Adequacy ratio was 11,55% based on the end of year audited figures. The purpose of capital is to provide sufficient resources to absorb the losses that a firm does not expect to make in the normal course of business (unexpected losses). The Company aims to maintain a minimum capital adequacy ratio which will ensure there is sufficient capital to support the Company during stressed conditions.

9. CAPITAL REQUIREMENTS

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and maximize shareholders' value. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

As indicated in section 1 of this report, the Company has been categorized as an Investment Firm falling under the Article 95.1 category, which requires it to hold eligible capital of at least one quarter of the fixed overheads of the preceding year.

Under the Law, Own Funds comprises Core Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Core Tier 1 consists mainly of paid up share capital, retained earnings less any proposed dividends, translation differences and un-audited current year losses. Current year profits are not added to own funds unless these are audited. Additional Tier 1 capital usually refers to preferred stock while Tier 2 capital to subordinated debt meeting certain issuance conditions imposed by regulations. Eligible Tier 2 capital is restricted to 33% of Tier 1 Capital.

The Company's regulatory capital, risk-weighted assets and capital ratios as at 31st December 2017 are shown below:

Table 2: Minimum Capital Requirements	**2017 €000**
Common Equity Tier 1 Capital	**263**
Additional Tier 1 Capital	Nil
Tier 2 Capital	**59**
Total Capital (Own Funds)	**322**
Total Eligible Capital	**322**
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	118
Total risk exposure amount for settlement/delivery risk	0
Total risk exposure amount for position, foreign exchange and commodities risks	0
Total risk exposure amount for operational risk (OPR)	0
Additional risk exposure amount due to fixed overheads	2,667
Total risk exposure amount for credit valuation adjustment	0
Total risk exposure amount related to large exposures in the trading book	0
Other risk exposure amounts	0
TOTAL RISK EXPOSURE AMOUNT	***2,785***
CET1 Capital ratio (minimum required 4,5%)	***9.43%***
T1 Capital ratio (minimum required 6,0%)	***9.43%***
Total Capital ratio (minimum required 8,0%)	***11.55%***

According to the Regulation the minimum total capital adequacy ratio is 8,0% whereas the Company's ratio as at 31st December 2017 was 11,55% as shown above.

Additionally, the Regulation requires that eligible capital lies at or above the minimum initial capital of €125,000. As shown above the Company's eligible capital was €321,771. Finally, Regulations require eligible capital above the Fixed Overhead Requirement of 25% * Fixed Overheads or €222,834 at 31st December 2017. The Company's eligible capital of €321,771 was above this.

Capital Resources

The Company maintained Tier 1 Capital of €262,771 and Tier 2 Capital of €321,771 as own funds as at 31st December 2017.

Credit Risk

The Company follows the Standardised Approach for the calculation of its minimum capital requirements for credit risk.

Table 3 presents the allocation of credit risk per exposure class in accordance with the Standardised Approach:

Table 3: Exposure Classes and Minimum Capital Requirements (€'000)			
Exposures at 31 December 2017	**Total Exposure Value**	**Risk-weighted amounts**	**Minimum Capital Requirements**
Exposure Class			
CORPORATE	12	12	1
INSTITUTION	369	82	6.5
OTHER ITEMS	14	14	1.1
PSE	9	9	0.8
Total	**405**	**118**	**9**

Table 4 presents the exposures of the Company per risk weight:

Table 4: Exposure amount per risk weight (€'000)	
Risk Weight	**Exposure Amount**
20%	359
100%	46
Total	**405**

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

Institutions

For its exposures to Institutions, the Company used the credit ratings of Standard & Poor's, Moody's and Fitch as these stood as of 31 December 2017

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

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

Corporate & Other Items

Exposures to Corporates and Other Items were unrated. As a result, a 100% risk weight was used.

Table 5 below provides a breakdown of credit risk exposures by Credit Quality Step:

Table 5: Exposure amount per CQS (€'000)	
Credit Quality Step	**Exposure Amount**
1-6	-
Unrated/Not Applicable	405
Total	**405**

Residual Maturity of Credit Risk Exposures

Table 6 presents the residual maturity of the Company's credit risk exposures by asset class:

Table 6: Exposure Classes and Residual Maturity (€'000)			
Exposures at 31 December 2017	**Maturity ≤ 3 months**	**Maturity > 3 months or Not Applicable**	**Total**
<u>**Exposure Class**</u>			
CORPORATE	12	-	**12**
INSTITUTION	359	10	**369**
OTHER ITEMS	14	-	**14**
PSE	9	-	**9**
Total	**395**	**10**	***405***

Geographic Distribution

The Company's exposures analysed by geographical area are shown below:

Table 7: Exposure Classes and Geographic Distribution (€'000)				
Exposures at 31 December 2017	**Cyprus**	**Czech Rebublic**	**Slovakia**	**Total**
Exposure Class				
CORPORATE	12	-	-	**12**
INSTITUTION	115	244	10	**369**
OTHER ITEMS	14	-	-	**14**
PSE	9	-	-	**9**
Total	**151**	**244**	**10**	***405***

Industry Sector of Credit Risk Exposures

A breakdown of the credit risk exposures by industry, for each exposure class at year end, is provided in Table 8:

Table 8: Exposure Classes and Industry (€'000)				
Exposures at 31 December 2017	**Financial**	**Other**	**PSE**	**Total**
Exposure Class				
CORPORATE	-	12	**0**	**12**
INSTITUTION	369	-	**0**	**369**
OTHER ITEMS	-	14	**0**	**14**
PSE	-	0	**9**	**9**
Total	**369**	**27**	***9***	***405***

Impaired and Past due Assets

As at 31 December 2017, the Company did not have any financial assets that were past due or impaired.

Remuneration Practices

In compliance with the CRR and in order for the Company to implement risk-focused remuneration controls and procedures which will be consistent with and promote effective risk management, the Company has established a Remuneration Policy (the 'Policy').

This Policy takes into consideration the Company's size, internal organisation and the nature, scope, and complexity of its activities and aims to set the principles and procedures to be followed for the remuneration of all Company staff.

Furthermore, this Policy aims to ensure the consistent and improved implementation of the conflicts of interest and conduct of business requirements under the Law in the area of remuneration, taking into consideration the requirements set out in Section 18(2)(b), 29 and 36 of the the Investment Services and Activities and Regulated Markets Law 144(I)/2007.

The Company's remuneration policy, procedures and practices aim to promote sound and effective risk management and do not encourage risk-taking that exceeds the level of risk tolerated by the Company. In considering the risks arising from its remuneration policies the Company also takes into account its statutory duties in relation to equal pay and non-discrimination.

It is noted that the Company having taken into account its size, internal organization and the nature, scope, and complexity of its activities, does not deem necessary the establishment of a specific remuneration committee. Decision on these matters is taken at Board of Directors level, while the remuneration policy is periodically reviewed.

The remuneration of Executive Directors and Senior Management of the Company, in 2017, was as shown below:

Number of Beneficiaries	Fixed Remuneration €uro	Variable Remuneration €uro	2017 Total €uro
2	115,850	17,100	132,950

Publication of disclosures

According to the CySEC Directive, these Pillar III Disclosures should be included in either the financial statements of the investment firm if these are published, or on its website. In addition, these Disclosures must be verified by the external auditors of the investment firm. The investment firm is responsible for submitting its external auditors' verification report on these disclosures to CySEC. The Company has included these Disclosures as per the Directive on its website as it does not publish financial statements. Verification of these Disclosures was carried out by the external auditors and an auditor's report submitted to CySEC.