

Disclosure of Information (Pillar III)
For the year ended December 31st, 2016

L F Investment Limited



April 2017

*Regulated by the Cyprus Securities and Exchange Commission
License no. 271/15*

THIS REPORT WAS PREPARED BASED ON THE AUDITED FINANCIAL STATEMENTS FOR
2016 BUT HAS NOT BEEN VERIFIED BY THE EXTERNAL AUDITOR AS AT THE DATE OF
ITS PUBLICATION

1. INTRODUCTION

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

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 2016 will be made available on the Company’s website at www.purple-trading.com are subjected to review by the Company’s external auditors who report to CySEC accordingly.

1.1. 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.

1.2. Verification

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the Risk Management Committee which consists of the Managing Director, the Risk Manager and a non-executive director.

The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures as detailed in Section 8 of this document have been reviewed by the Board which has responsibility for the Remuneration Policy in the absence of a Remuneration 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 2 executive directors and 2 independent non-executive directors.

Full name of Director	Position/Title	Capacity	Country
Jan Roh	Managing Director	Executive Director, "4 eyes"	Cyprus
Aggelos Mouzouras	Executive Director	Executive Director, "4 eyes"	Cyprus
George Koumas	Director	Non-Exe. Director, Independent	Cyprus
Nikos Efstathiou	Director	Non-Exe. Director, Independent	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.

The persons proposed for appointment to the Board should commit the necessary time and effort to fulfill 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

Full Name of Director	Position/Title	Executive	Non-Executive
Jan Roh	Managing Director	1	0
Aggelos Mouzouras	Executive Director	1	0
George Koumas	Director	0	2
Nikos Eftathiou	Director	0	2

2.5. Governance Committees

The Company has not formed any governance committees other than the Risk Management 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.

3. RISK MANAGEMENT

3.1 Board Approved Risk Statement

The Board of Directors is responsible for setting the Company's overall risk appetite and for monitoring the Company's actual risk profile against this. The Board has declared its risk appetite as **low**. This permeates all executive decision making for example geographic markets targeted for business or types of financial investment for the Company's excess liquidity. In pursuing its business strategy the Company aims to ensure that its capital remains at all times above the regulatory minimum.

3.1.1. 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.

3.1.2. 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.

3.1.3. 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.

3.1.4. 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 fulfill 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.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk:

	Maximum exposure to credit risk
	2016
	€000
Cash and cash equivalents	28
Fees Receivable & Other Assets	174
Investors Compensation Fund	n/a*
<i>Total maximum exposure</i>	202
<i>Total risk-weighted exposure</i>	178
<i>Credit Risk (8% of total risk weighted exposure)</i>	14

** Due to a revision in regulatory guidance the balance with the ICF is excluded 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 recent 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 DI2016-144-14 and DI2016-144-15, 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 in section 10.1 below shows the Total Risk Exposure which takes into account the exposure to Fixed Overheads (equal to 12.5 times the Fixed Overheads Requirements). 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
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- 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 a balance due from a related party, 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.

8. 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 2016 was €107,942 of which €78,912 was payable to directors.

No severance payments and variable or deferred remuneration were awarded during the year.

9. OWN FUNDS

At 31st of December 2016 the Company's own funds i.e. capital base was as follows:

	€000
Share Capital	297,4
Retained Earnings / (Losses)	(173,5)
Regulatory Deductions – Investor Compensation Fund Balance	(68,3)
Common Equity Tier 1 Capital	55,6
Additional Tier 1 Capital	Nil
Tier 2 Capital	59,0
Total Capital (Own Funds)	114,6

As can be seen above on 31 December 2016 the Company maintained both Common Equity Tier 1 (CET 1) and Tier 2 capital as eligible own funds. CET1 comprises paid up share capital, 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 2016 comprised a shareholder loan.

10. 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.

10.1. Capital Requirements (based on exposure to fixed overheads)

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.

According to the Regulation and the Law the minimum total capital adequacy ratio is 8% and the minimum own capital is €125,000. As at 31 December 2016, the Company's total risk exposure amount was €562,500 resulting in a total capital adequacy ratio of 20,4%, which is above the minimum required of 8%. However, the total capital of €114,600 was below the minimum capital of €125,000 prescribed by CySEC. The Company proceeded to remedy this

capital shortfall in January 2017 through a shareholder capital injection of €102,000 qualifying as CET1 capital.

The Company's total eligible capital at 31 December 2016 of €114,600 exceeds the Fixed Overheads Requirement (25% * Fixed Overheads) of €45,000:

	2016 €000
Common Equity Tier 1 Capital	55,6
Additional Tier 1 Capital	Nil
Tier 2 Capital	59,0
Total Capital (Own Funds)	114,6
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	223,1
Total risk exposure amount for settlement/delivery risk	0
Total risk exposure amount for position, foreign exchange and commodities risks	3,6
Total risk exposure amount for operational risk (OPR)	0
Additional risk exposure amount due to fixed overheads	335,8
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	562,5
CET1 Capital ratio	9,9%
T1 Capital ratio	9,9%
Total Capital ratio	20,4%

Under the Law, Own Funds 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.

Capital Resources

The Company maintained Tier 1 Capital of €55,600 and Tier 2 Capital of €59,000 as eligible own funds as at 31st December 2016.

Publication of disclosures

According to the CySEC Directive, these Pillar III Disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. 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 will be carried out by the external auditors and an auditor's report submitted to CySEC on or before 31st May 2017.