



a trading name of

L. F. Investment Limited

**Regulated by the Cyprus Securities and Exchange
Commission License no. 271/15
Disclosure and Market Discipline Report 2019**

April 2020

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1. Introduction

1.1 Pillar III Regulatory Framework and Scope of Application

The present report is prepared by L. F. Investment Limited (the "Company") a Cyprus Investment Firm ("CIF") authorized and regulated by the Cyprus Securities and Exchange Commission (the "CySEC", the "Commission") under the license number 271/15 and operates in harmonisation with the Markets in Financial Instruments Directive (MiFID II).

In accordance with Regulation (EU) No. 575/2013 (the "Capital Requirements Regulation", "CRR"), which was introduced in 2014, the Company is required to disclose information relating to its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company's corporate governance including its remuneration system. The scope of this report is to promote market discipline and to improve transparency of market participants.

The Capital Requirements Regulation introduced significant changes in the prudential regulatory regime applicable to banks and investment firms including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of Risk Weighted Assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2019. The current regulatory framework comprises three pillars:

- **Pillar I** cover the calculation of Risk Weighted Assets for Credit Risk, Market Risk and Operational Risk.
- **Pillar II** covers the Supervisory Review and Evaluation Process ("SREP"), which assesses the Internal Capital Adequacy Assessment Process (the "ICAAP") and provides for the monitoring and self-assessment of and institution's capital adequacy and internal processes.
- **Pillar III** covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

The 2019 Pillar III Disclosures report sets out both quantitative and qualitative information required in accordance with Part 8 of the CRR and in particular articles 431 to 455, which set the requirements of the disclosures.

The information contained in the Pillar III Market Discipline and Disclosure report is audited by the Firm's external auditors and published on the Company's websites at www.purple-trading.com on an annual basis.

Furthermore, the Board of Directors and the Senior Management have the overall responsibility for the internal control systems in the process of "Capital Adequacy Assessment" and they have established effective processes to ensure that the full spectrum of risks facing the Company is properly identified, measured, monitored and controlled to minimize adverse outcomes.

The Company's business effectiveness is presented and based on the guidelines of the risk management policies and procedures. The Board of Directors, Internal Audit, Risk Manager,

Compliance and Anti-Money Laundering Officer control and supervise the overall risk system so that all units charged with risk management perform their roles effectively on a continuous basis.

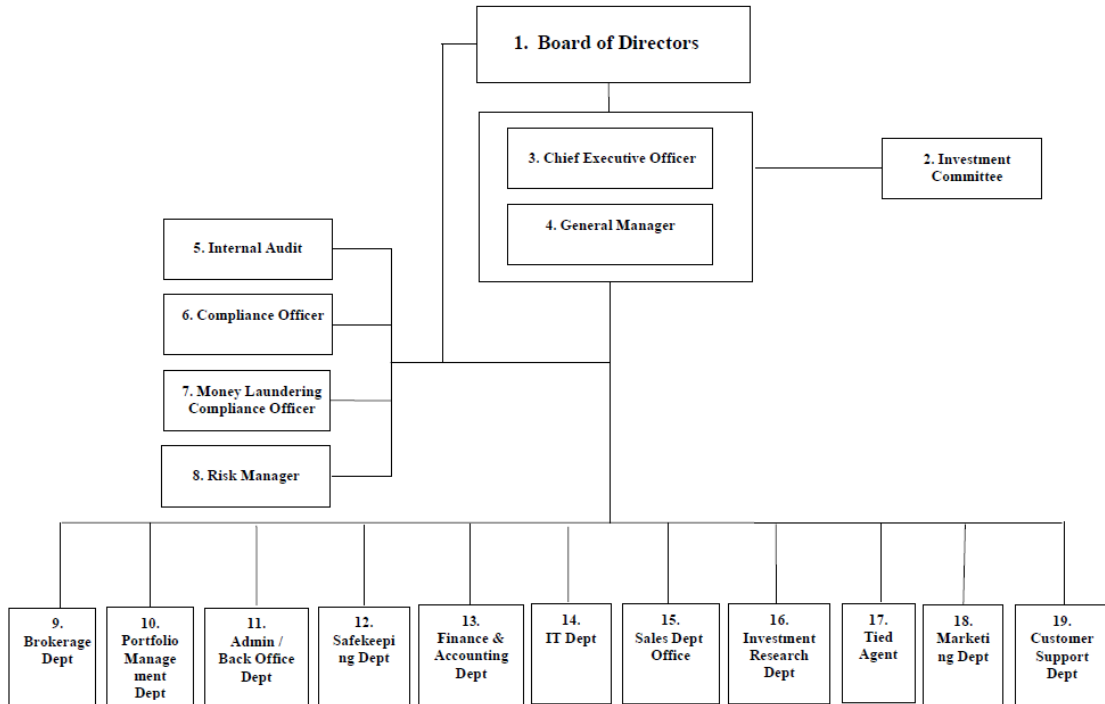
As with all Investment Firms, the Company is exposed to a variety of risks. In particular the Company is exposed to Credit Risk, Market Risk and Operational Risk. More information can be found in the sections below.

1.2 Investment Firm

Corporate Information

Company Name	L. F. Investment Limited
CIF Authorization Date	06/04/2015
CIF license Number	271/15
Company Registration Date	11 February 2014
Company Registration Number	329493
Investment Services	
(a) Reception and transmission of orders in relation to one or more financial instruments	
(b) Execution of Orders on Behalf of Clients	
(c) Portfolio Management	
Ancillary Services	
(a) Safekeeping and administration of financial instruments, including custodianship and related services	
(b) Foreign exchange services where these are connected to the provision of investment services	
(c) Investment research and financial analysis or other forms	

1.3 Organizational Structure



1.4 Regulatory (Prudential) Supervision

The Laws and Regulations that govern the operations of Cyprus Investment Firms and set out the obligations and requirements that shall be met in the aspect of capital adequacy and market discipline, are comprised, inter alia, by the following:

- Law 87(I)/2017: Provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (hereafter “the Law”);
- Regulation (EU) No. 575/2013 – Capital Requirements Regulation;
- Regulation (EU) No. 648/2012 – European Markets Infrastructure Regulation;
- Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC – Capital Requirements Directive IV;
- Directive DI144-2014-14: For the prudential supervision of Investment Firms;
- Directive DI144-2014-15: On the discretions of CySEC arising from Regulation (EU) No. 575/2013;

2. Risk Management

2.1 Definition

Risk is defined as a negative or positive deviation from the expected values of metrics which are of significant importance to a company. Risk management therefore constitutes an integral

part of our business framework and is considered as to be a vital element of the Company's business.

The Company allocates resources towards the management of its risks with the purpose of increasing the efficiency of its operations and its capital utilization, maximize income and maintain stability. In addition, the risk management framework of L. F. Investment Limited is continually adapted and enhanced as the market environment changes.

During 2019, the Company was mainly exposed to credit risk, market risk, operational risk, liquidity risk and business risk. The sections that follow provide more insight on the exposure to each of these risk types and lay out the policies, arrangements, processes and mechanisms used by the Company to measure, control and mitigate them.

2.2 Risk Monitoring and Control

The Company manages its risks through various control mechanisms with the purpose of being both prudent and evolutionary. Its risk control framework comprises of both qualitative elements, such as policies and procedures, and quantitative components, such as numerical limits. The various risks are monitored on a continuous basis and every effort was made to mitigate them in order to be in line with the risk appetite set by the Board.

During 2019, the Risk Manager reviewed the risk management system of L. F. Investment Limited on an on-going basis with the purpose of ensuring that it is at all times effective in capturing and managing current and potential risks. Major changes to the risk management framework were presented to the Board and to Management for approval.

2.3 Risk Appetite

The Company's risk appetite is set by the Board of Directors. All risks are considered, and a high-level tolerance is set. L.F. Investment's risk bearing capacity is also considered in terms of the capital required to support the strategy and assume what is deemed as acceptable risk.

L. F. Investment defines its risk appetite in a way that it reflects its risk profile and business strategy. The risk appetite is the size and nature of risks that the Company is willing and able to take to achieve its mission, vision and business goals.

The Board sets risk appetite at a general level, for capital and client credit risk considering negative balance provisions, and specifically for each risk type through the limits, policies, controls and procedures that are established, and are communicated to the entire organization.

The Board uses subject matter expertise, experience, systems, controls and infrastructure in order to define its risk appetite.

Its sensitivity to risk is managed through the following limits:

- Capital: Capital adequacy ratio to always be in line with Pillar 1 and Pillar 2 capital requirements.
- Credit risk. The following limits relate to client credit risk:
 - The maximum client credit default risk is set at €50.000 per client per currency.
 - The stop out limits has been set at 50%

- The Company has taken adequate measures and designed its trading systems in a way that offers its Retail clients leverage limits determined in accordance to the Maximum permitted leverage limits per market and the with the scoring of each client at the appropriateness test or limit, based on the applicable regulations. Professional clients are able to trade with higher leverage.
- Operational risk: Losses from operational risk events not to exceed the extreme loss calculation in the Company's risk register.
- Market Risk: As the Company does not scale its operation yet, this exposure is limited to the balance sheet exposure derived from monetary assets and liabilities denominated in currencies other than its reporting currency (the euro).

2.4 ICAAP

In order to evaluate the risks that are not covered by capital requirements (Pillar 1), and according to Pillar 2 requirements the Company has implemented the ICAAP procedure. The ICAAP process considers all 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 them both currently and in the future. The Company performs a full ICAAP annually with approval provided by the Board. Financial department prepared Business Plan and Capital Plan for next 3-5 years based on rolling P&L and Balance Sheet. Risk Manager implemented Stress Test of the Capital Plan, based on "What if" approach in each department of the Company. Financial department prepared stress tested Capital Plan based on Stress Test Register. Financial department prepares Budget of the Company, based on stress tested Capital Plan. Financial department compares the calculated Capital Plan and stress tested Capital Plan: Pillar I Risks + Pillar I uncovered Risks + Pillar II Risks.

These measures allow Management to evaluate Gap Analysis (what we have at hands and what we should have), and to create Action Plan to monitor and mitigate the consequences of the risks to make the Board of Directors to be able to assess and approve Action Plan along with outcomes of ICAAP.

3. Credit Risk

3.1 Definition

Credit Risk is the risk of loss that the Company would incur if the Company fails to perform its contractual credit obligations. The Company follows the Standardized Approach under Pillar 1 for calculating its Credit Risk Capital Requirements as specified in CRR. It categorizes the assets in respect to their exposure class and uses the Credit Step methodology to determine its respective Risk Weights (RW).

3.2 Risk identification, Measurement, Control and Reporting

Credit Risk arises when failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets in hand, at the balance sheet date. The Company's Credit Risk arises:

- By the Company's deposits in Financial institutions;
- By assets mainly held under the Investor's Compensation Fund, debtors or prepayments.

The Company follows mitigation strategies in order to minimize the possibility of occurrence of this risk, such as:

- The Company maintains Regular credit review of counterparties, identifying the key risks faced and reports them to the BoD, which then determines the Company's risk appetite and ensures that an appropriate amount of capital is maintained.
- In order to maintain its Credit Risk to the minimum, the Company is using EU equivalent credit institutions for safekeeping of funds, it frequently monitors their compliance with the EU regulatory framework and diversifies the funds over several credit institutions thus mitigating the risk exposure efficiently .

3.3 Credit Risk Analysis

The tables below indicate the Company's Credit Risk exposure under Pillar 1, as at the end of 2019.

A. Total Exposure/Credit Risk Capital Requirements

Credit Risk Capital Requirements	31 December 2019	
	EUR'000	EUR'000
Risk Weighted Assets:	Risk Weighted Assets	Capital Requirement
Institutions	463	37
Corporate	27	2
Other Items	90	7
Total	580	46

B. Industry Exposure

Credit Risk Capital Requirements by Industry	31 December 2019	
	EUR'000	
Risk Weighted Assets:		
Financial institutions	463	
Non-financial institutions	117	
Total Risk Weighted Assets	580	
Capital Requirements	46	

C. Residual Maturity

Credit Risk Capital Requirements by Maturity	31 December 2019
	EUR'000
Risk Weighted Assets:	
Up to 3 Months	474
Above 3 Months	106
Total Risk Weighted Assets	580
Capital Requirements	46

D. Country Exposure

Credit Risk Capital Requirements by Country	31 December 2019
	EUR'000
Risk Weighted Assets:	
EU	580
Total Risk Weighted Assets	580
Capital Requirements	46

E. Analysis of Exposures by Credit Quality Step

Credit Quality Step	BBB- (Fitch)	Caa1 and Below (Moody)	Unrated	Total
Institutions	€533,227	€233,060	€1,467,570	€2,233,857
Corporates			€26,585	€26,585
Total exposures	€533,227	€233,060	€1,494,155	€2,260,442

4. Market Risk

4.1 Definition

Market Risk is the risk of losses when the value of investments may decline over a given time period as a result of economic changes or events that impact a large portion of the market. In the context of Pillar I, Market Risk can be divided in the following categories:

Position Risk: It refers to the probability of loss associated with a particular trading (long or short) position due to price changes.

Interest Rate Risk: The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Commodities Risk: It refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be oil, metals, gas, electricity etc.

Foreign Exchange Risk: It is a financial risk that exists when a financial transaction is denominated in a currency other than the base currency of the Company. The foreign exchange risk in the Company is effectively managed by the establishment and control of foreign exchange limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

4.2 Risk identification, Measurement, Control and Reporting

As the Company does not have the license to trade on own account, this exposure is limited to the balance sheet exposure derived from monetary assets and liabilities denominated in currencies other than its reporting currency (the euro).

The Company uses the Standardized Method to measure capital requirements for currency risk, i.e. 8% capital is required for any open net exposure in foreign currency. As it can be seen below, due to the fact that, as at year-end (based on audited results), the Company had nil positions in currencies other than the euro, the resulting capital requirement for this risk was nil.

During 2019, the Company managed currency risk by monitoring the exchange rate fluctuations on a continuous basis.

5. Operational Risk Management

5.1 Definition

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. It includes legal and compliance, as well as environmental risks.

The following list presents some event types, included in Operational Risk, with some examples for each category:

- Internal Fraud - misappropriation of assets, tax evasion, intentional mismarking of positions, bribery and theft of the CRM from departing employees.
- External Fraud - theft of information, hacking damage, third-party theft and forgery.
- Compliance - Brand impairment, Complaint handling, third country regulator retaliation, E-commerce global taxation matters
- Clients, Products and Business Practice - market manipulation, asymmetrical slippage, antitrust, improper trade, product defects, fiduciary breaches.

5.2 Risk identification, Control and Reporting

In order to control the exposure to Operational Risks, the management has established two key objectives:

- To minimize the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses)

- To improve the effective management of the Company.

The Company recognizes that the control of Operational Risk is directly related to effective and efficient management practices and high standards of corporate governance.

To that effect, the management of Operational Risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing Operational Risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

The Company implements the below Operational Risk Mitigation Strategies in order to minimize its Operational Risk Exposure:

The development of Operational Risk awareness and culture.

- The provision of adequate information to the Company's management, in all levels, in order to facilitate decision making for risk control activities
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Company and have a minimal impact on profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.
- Established a "four-eyes" structure and board oversight. This structure ensures the separation of power regarding vital functions of the Company namely through the existence of a Senior Management and a Risk Management. The board further reviews any decisions made by the Management while monitoring their activities;
- Detection methods are in place in order to detect fraudulent activities; Comprehensive business contingency and disaster recovery plan.

The Senior Management employ specialized tools and methodologies to identify, assess, mitigate and monitor Operational Risk. These specialized tools and methodologies assist Operational Risk management to address any control gaps. To this effect, the following are implemented:

- Incident collection
- Key Risk Indicators
- Business Continuity Management
- Training and awareness

5.3 Measurement

The Company does not apply Operational Risk Indicator approaches to calculate the amount of capital required under the minimum regulatory capital requirements. Instead of this, under 95 (1) of Regulation(EU) No575/2013 the Company is using Fixed Overheads Calculation Method.

Fixed Overheads

Fixed Overhead is a set of costs that do not vary as the result of changes in activity. They are needed in order to operate the business. Fixed overheads do not change greatly, they are easy to predict.

CIFs should be aware of the total amount of fixed overhead costs that a business incurs, so that management can plan to generate a sufficient amount of contribution margin from services

to, at least, balance the amount of fixed overhead. Otherwise it is impossible to generate a profit.

Investment firms are required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year or projected fixed overheads in case of an investment firm not having completed business for one year. The approach for calculating fixed overheads is a subtractive approach, whereby variable cost items are deducted from the total expenses as calculated according to the applicable accounting framework.

Under Article 95(1) of Regulation (EU) No575/2013, CIFs which are not authorized to provide:

- Dealing on own account
- Underwriting of financial instruments and/or placing of financial instruments on firm commitment basis

apply the following formula: higher of total risk exposure amount (excluding operational risk) and Fixed Overheads of the preceding year multiplied by 12.5 and 25% applied.

The calculation is based on the EBA's Final Draft Regulatory Technical Standards on own funds requirements for investment firms based on Fixed Overheads under the Article 97(4) of Regulation (EU) No575/2013.

Fixed Overheads	31 December 2019
	Actual
	EUR'000
Total expenses (after distribution of profits)	1,730
Less deductible fees	330
Fixed Overheads	1,400
Fixed Overheads Requirement (25% * Fixed Overheads)	350
Fixed Overheads risk exposure amount	4,375

6. Liquidity Risk

6.1 Definition

Liquidity Risk is the risk that the Company will not be able to meet its financial obligations as they fall due. In periods of abnormal fluctuations in market conditions or financial crisis, Liquidity Risk can expose the Company to a shortfall of liquidity and limit its access to the capital markets resulting in damages. Liquidity shortages expose the Company to the risk of not having enough cash to fulfil its duties against creditors/debtors that can eventually cause regulatory sanctions and loss of business/reputation.

6.2 Mitigation Strategies

To minimize its exposure to Liquidity Risk, the Company implements the below Liquidity Risk Mitigation Strategies:

- Regular analysis and reporting to the BoD on the funding needs of the Company.
- Monitoring of the Company's exposures and diversification to avoid rise of concentration risk as per the internal policies.
- Cash Management.

The analysis of the Company's financial assets and financial liabilities by remaining contractual maturity is presented below:

	On demand and up to one month €	Between one month and one year €	Between one month and five years €	Over five years €	Total €
2019					
Assets					
Cash at bank	824,845				824,845
Trade and other receivables	1,389,462	10,596	35,989		1,436,047
Compensation Fund				75,729	75,729
Total assets	2,214,307	10,596		75,729	2,336,621
Liabilities					
Trade and other Liabilities		46,651			46,651
Total liabilities		46,651			
Net Position	2,214,307	- 36,055	-	75,729	2,289,970

7. Business Risk

7.1 Definition

Business risk reflects the risk of direct or indirect loss, or damaged reputation as a result of changes in external circumstances or events. Business risk includes all risks not mentioned under other risks.

The key business risks are identified as part of the Company's budgeting process. The outcome of this process forms the basis for the sensitivity analysis applied on net income. Business risk is covered by the budgeted income. However, if the income is not sufficient, capital must explicitly be set aside.

7.2 Management and Control

Throughout the year the Company's performance was being evaluated to determine whether capital needed to be set aside.

8. Corporate Governance

8.1 Recruitment Policy

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 to be able to understand the CIF's activities, including the main risks to ensure the sound and

prudent management of the Company as well as sufficient knowledge, of the legal framework governing the operations a CIF. The Board of Directors is responsible for the final approval on the recruitment of Board members.

8.2 Board of Directors

The Board of Directors is comprised of 2 executive directors 1 non-executive director and 2 independent non-executive directors.

Name of Directors	Executive Director/Independent Non-Executive Director	Number of Directorships in other entities
Jan Roh	Executive Director	-
David Varga	Executive Director	-
George Sardos	Independent Non-Executive Director	-
Nikos Efstathiou	Independent Non-Executive Director	1

8.3 Diversity Policy of the Board of Directors

The Company embraces diversity as it recognizes the benefits of having Board which makes use of differences in the skills, experience, knowledge, background, race and gender between directors. When recruiting members for the Board, diversity in its members is seriously taken into account for forming the optimal composition of the Board.

8.4 Reporting and Control

In line with the requirements set out in the Law and subsequent Directives, the Company has been able to maintain a good information flow on risk to the management body, as can be seen below:

Report Name	Owner	Recipient	Frequency
Compliance Report	Compliance Officer	BoD, CySEC	Annual
Internal Audit Report	Internal Auditor	BoD, CySEC	Annual
Risk Management Report	Risk Manager	BoD, CySEC	Annual
Anti-Money Laundering Report	Anti-Money Laundering Compliance Officer	BoD, CySEC	Annual
Pillar III Disclosures (Market Discipline and Disclosure)	Risk Manager	BoD, CySEC, Public	Annual
Financial Reporting	External Auditor	BoD, CySEC	Annual
ICAAP Report	Risk Manager/Financial Controller	BoD, CySEC	Annual

Capital Adequacy Reporting	Risk Manager/Financial Controller	Senior Management, CySEC	Quarterly
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9. Own Funds

9.1 Tier 1 Own Funds and Tier 2 Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

The Board has ultimate responsibility for the Company's capital management and capital allocation. The Board is kept informed via a quarterly update on the financial statements. During the 12-month accounting period of 2019 year, the Company complied fully with all capital and liquidity requirements and operated well with the regulatory requirements determined by the regulation. The Own Funds of the Company as at 31 December 2019 consisted of

Tier 1 capital and amounted to EUR 242,880. An analysis is provided in Table below:

Own Funds/Tier 1 Capital	31 December 2019
	EUR'000
Share Capital	445
Share Premium	809
Accumulated Loss	(883)
Other deductions to CET1/Capital Contributions to ICF	(95)
Total Common Equity Tier 1	276
Additional Tier 1 Capital	0
Total Tier 1 Capital	276
Tier 2	99
Total Own Funds	375

9.2 Share Capital

Authorized Share Capital

As at 31 December 2019, the authorized share capital of the Company was 445,065 shares of €1 each.

Issued Capital

On 22 March 2019, the company issued of 12,000 shares of €1 each at a share premium of €12 per share totaling to €156,000.

On 02 August 2019, the company issued of 10,960 shares of €1 each at a share premium of €24,54 per share totaling to €279,918.

The total share capital and share premium as at 31 December 2019 amounted to €1,254,201.

10. Capital Requirements

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company is required to report on a quarterly basis its capital adequacy and has to maintain at all times a minimum capital adequacy ratio which is at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. The Senior Management and the Accounting Department monitor the reporting obligation and put in place policies and procedures in order to meet the relevant regulatory requirement.

The Company uses the standardized approach for the quantification of credit and market risks.

The total Capital Requirements as at 31 December 2019 are shown in the table below:

Capital Ratio	31 December 2019 EUR' 000
Risk Weighted Assets Exposure:	
Credit Risk	580
Market Risk	0
Additional risk exposure due to fixed overheads	3,795
Total Risk Exposure amount	4,375
Total Eligible Own Funds	375
Capital Adequacy Ratio Actual/Forecast	8.6%
Minimum Capital Adequacy Ratio	8%

The Capital Adequacy ratio of the company for the year ended 31 December 2019 was 8.6% higher than the minimum required 8%. During the year 2019, the ratio never fell below of what is deemed minimum by CySEC.

L. F. Investment Limited calculates its regulatory own funds and capital adequacy ratio on an individual basis. The Company's Eligible Own Funds includes only Own Funds (Tier 1 and Tier 2 Capital). Tier 1 capital is a core measure of a Company's financial strength from a regulator's point of view. It is composed of share capital, share premium and reserves (excluding revaluation reserves) including the profits and losses brought forward as a result of the application of the final profit or loss. Tier 2 capital is designated as supplementary capital and is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments, and subordinated term

11. Remuneration Policy and Practices

Remuneration refers to payments or compensations received for services or employment. Based on the above, the Remuneration policy includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment and shall be appropriate to the Company's size, internal organization and the nature, the scope and the complexity of its activities to the provisions of the Directive DI144-2014-14.

During 2019 the Company's remuneration system is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management, members of the BoD and the Heads of the departments; the said practices are established to ensure that the rewards for the 'executive management' provide the right incentives to achieve the key business aims.

The total remuneration of staff consists of fixed and variable components. Fixed and variable components are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.

The table below presents the annual remuneration for 2019, of the members of the Board of Directors.

2019	Executive Directors	Non-Executive Directors
Fixed Reward	€102,000	€16,712
Variable Reward	-	-
Total	€102,000	€16,712
Number of beneficiaries	2	3