



**Disclosure of Information (Pillar 3)
For the year ended December 31st, 2012**

May 2013

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1. Introduction

CF Invest Ltd (the “Company”) is a Cypriot Investment Firm regulated by the Cyprus Securities and Exchange Commission (“CySEC”) on the 25th of September 2012, with license number 179/12.

Following the implementation of the Directive DI144-2007-05 of 2012 of the CySEC, the Company is required to disclose information related its capital; as well as each material category of risk it is exposed to, in order to assist users of its services and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the Company and the risk assessment processes it has in place to monitor such exposures.

The disclosures herein are for the year ended 31 December 2012. The Company does not have any subsidiaries, therefore, this report relates solely to the Company.

A review will be carried out on an annual basis, or more frequently considering the scale, size and complexity of the Company and its operations, and the financial instruments offered to clients. It should be noted that some or all of the disclosures need not be published more frequently than annually. The disclosures report will be published and available on the Company’s website at <http://cfimarkets.com>.

2. 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 exposed to the financial impact arising from changes in the exchange rates of various currencies in 3 ways. Firstly, since the Company acts as agents to fulfill a customer order it is only exposed to market risk if the transaction does not clear or settle properly. Secondly, the Company may receive commissions in a currency other than Euro, which is the base currency of the Company. Thirdly, the Company has expenses denominated in a foreign currency.

However, considering the current nature, scale and complexity of the Company's operations, the said risk is deemed insignificant and any adverse movement in exchange rates is not expected to materially impact the Company's financials. It will however, be regularly monitored and if deemed necessary corrective actions will be taken to minimize the effect.

3. 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.

The Company is only exposed to credit risk mainly arising from cash and cash equivalents. It has significant exposure with financial institutions in the European Economic area (Cyprus) and in the Middle East (Lebanon). In order to mitigate risks related to cash and cash equivalents, the Company utilizes European and Middle Eastern Banks with lower default risks and tries to limit the maximum cash amount that can be deposited with a single counterparty. In addition, the Company reviews a list of acceptable cash counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk

Exposure to credit risk (in €000)	
Risk weighted assets:	2012
Cash	333
Fees Receivable & Other Assets	0
Fixed Assets	9
Investors Compensation Fund	43
<i>Total risk weighted assets</i>	<i>385</i>
<i>Credit Risk (8% of total risk weighted assets)</i>	<i>31</i>

4. 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.

The Company adopted the Basic Indicator approach for Operational risk. The Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation. This includes the average over 3 year period of income earned.

The Company was licensed in 2012 and did not commence operations throughout 2012. As a result, the Company's exposure to Operational Risk was based on the projected net income for years 2013, 2014 and 2015.

The table below shows the Company's exposure to credit risk.

Projected Income	GROSS INCOME (in €000)			CAPITAL REQUIREMENTS
	YEAR-3	YEAR-2	LAST YEAR	
Total Activities (subject to Basic Indicator Approach)	300	200	100	30

5. Other Risks

5.1 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.

5.2 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.

5.3 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.

5.4 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. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

5.5 Capital Risk Management

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. This is achieved through the preparation on a monthly basis of Company's Management Accounts to monitor the financial and capital position of the Company.

5.6 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 very low.

5.7 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.

5.8 Concentration Risk

This includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

5.9 Information Technology (IT) Risk

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT 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 minimized to the lowest possible level.

6. Capital Base

At 31st of December 2012 the Capital base of the Company was as follows:

Capital Base 2012 (in €000)	
Share Capital	400
Intangible Assets	(0)
Accumulated Profit/(loss)	(15)
Total	385

7. Capital Adequacy

Based on the Company's authorization, quarterly Capital Adequacy Reports are prepared and submitted to Cyprus Securities and Exchange Commission. The Capital Adequacy Reports is prepared on a solo basis and the reporting currency is Euro.

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee as adopted by CySEC. In 2012, CySEC issued an updated Directive DI144-2007-05 that has replaced the previous directive on the Capital Adequacy of Investment Firms. Basel II consists of three pillars: (I) minimum capital requirements, (II) supervisory review process and (III) market discipline. The Company has implemented the provisions of the Directive as of 31st December 2012.

7.1 Pillar I – Minimum Capital Requirements

The Company adopted the Standardised approach for Credit and Market risk and the Basic Indicator approach for Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions, the risk weight also depends on the term of the exposure (more favourable risk weights apply where the exposure is under three months). The categories of exposures the Company is exposed to with regards to credit risk are deposits with banks, other assets and fixed assets.

The standardized measurement method for the capital requirement for market risk adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement.

For operational risk, the Basic Indicator approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation.

7.2 Pillar II – The Supervisory Review Process (SRP)

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

7.3 Pillar III – Market discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds. In addition the results and conclusions of ICAAP are disclosed.

According to the CySEC Directive, the risk management 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 will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements. Verification of these disclosures have been made by the external auditors and sent to CySEC.

7.4 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 maximise 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.

CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. CySEC may impose additional capital requirements for risks not covered by Pillar I.

During 2012, the Company has fully complied with all externally imposed capital requirements as shown in the table below.

Total Capital (Own Funds) 2012 (in €000)	
<i>Total Capital (Own Funds)</i>	400
Risk weighted assets – Credit Risk	31
Risk weighted assets – Market Risk	-
Risk weighted assets – Operational Risk	30
<i>Total Risks</i>	61
Surplus Capital Against Total Risks	339
<i>Total Capital Adequacy Ratio</i>	50.66%

Under the Directive, Own Funds consist 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.

7.5 Capital Resources

The Company maintains only Tier 1 Capital as eligible own funds. Total eligible own funds for 31 December 2012 were €385k.

7.6 Capital Requirement / Risk Weighted Assets

According to the Capital Adequacy Directive the minimum capital adequacy ratio is 8%. As at 31 December 2012, the Company's total capital requirements were €61k resulting in a capital adequacy ratio of 50.66%, considerably higher than the minimum required of 8%.