Bogofinance Capital Markets Limited

PILLAR III DISCLOSURES

According to Directives DI144-2014-14 and DI144-2014-15 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

YEAR ENDED 31 DECEMBER 2018

April 2019

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1. Introduction

1.1 Corporate information

Bogofinance Capital Markets Limited (the "Company") was incorporated in Cyprus on 16 December 2015 as a private limited liability company under the Cyprus Companies Law, Cap. 113, with a view of eventually providing a general electronic exchange platform for financial institution services to individuals and institutions.

In 2017, the Company received authorisation from the Cyprus Securities and Exchange Commission (hereafter the "CySEC") to operate as a Cypriot Investment Firm under license number 321/17 and registration number HE 350309.

The Company currently offers the following investment and ancillary services:

Investment Services
Reception and transmission of orders in relation to one or more financial instruments
Execution of orders on behalf of clients
Dealing on own account

Ancillary Services
Safekeeping and administration of financial instruments, including custodianship and related services
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
Foreign exchange services where these are connected to the provision of investment services

1.2 Pillar III Regulatory framework

Regulatory framework overview

This report has been prepared in accordance with the requirements of Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the "CRR") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms. It relates to the year ended 31 December 2018.

The CRR is based on three pillars:

1. Pillar I has to do with the standards that set out the minimum regulatory capital requirements required for credit, market and operational risk;

2. Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes (ICAAP). Under this pillar, investment firms have to evaluate and assess their internal capital requirements; and

3. Pillar III covers transparency and relates to the obligation of investment firms to publicly disclose information with respect to their risks, their capital and the risk management structures, policies and procedures they have in place.

1.3 Disclosure Policy

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR.

According to the Directive, the risk management disclosures should be included in either the financial statements of the CIFs if these are published, or on their websites. The Pillar III disclosure requirements are contained in Articles 431 to 455 of the CRR. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF is be responsible to submit its external auditor's 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 has been made by the external auditors and sent to CySEC by 31 May 2019

The Regulation provides that institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (*Article 435 (2) (c)* of CRR).
- Own funds *(Article 437* of CRR).
- Remuneration policy *(Article 450* of CRR).

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

<u>Disclosures and Confidential Information</u>

The Regulation also provides that institutions may omit one or more disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

<u>Frequency</u>

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

<u>Medium and location of publication</u>

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website.

Verification
The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Manager.

2. Scope of Application

The Company is publishing the disclosures on an individual (solo) basis. The Pillar III disclosures is prepared in accordance with the Pillar 3 disclosure requirements as laid out in Part Eight of the Regulation No. 575/2013 (CRR) and Capital Requirement Directive IV.

The report is based on the Annual Reports and Financial Statements which are prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Cyprus Company Law, Cap. 113.

3. Governance – Board and Committees

3.1 Board of Directors

The responsibility of the overall risk management and/or assessment lies with the Board of Directors of the Company. The Board of Directors needs to identify, assess, monitor and control each type of risk on a continuous basis.

The responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- Decide on the Company's risk bearing capability and strategy; ensure alignment with the set risk appetite in executing the Company's strategy and make sure the stakeholders understand the stance of the Company;
- Review the Risk Assessment Report prepared by the Risk Manager and take appropriate action where necessary; and
- Ensure that the Company has the ability to cover its financial needs and minimum capital requirements at any time.

3.2 Board Recruitment Policy

The selection criteria of the Board Members are based on various skills such as relevant industry experience and regulation, network and reputation, with proven track record. In addition, for the Non-Executive members of the Board, the Company's selection is based on a more balanced approach; for example, the Company is selecting directors with diverse industry background such as legal and finance, so as to fulfil its needs and execute its strategic plan.

Board recruitment is subject to the approval of the Shareholders, Managing Director, General Manager and the two Independent Non-Executive Director. Regulatory approval is coordinated with the Compliance Officer and the General Manager.

3.3 Board Diversity Policy

Bogofinance Capital Markets Limited acknowledges the benefits of having a diverse Board. The Company evaluates on a yearly basis how diverse the Board is, with the purpose of maintaining a competitive advantage among other companies in the industry given the communities it does business with. Diversity is based on skills, experience, knowledge and independence. All these values are evaluated by the Shareholders, Directors, General Manager, Internal Auditor and Compliance Officer to ensure a more balanced approach.

3.4 Number of directorships held by members of the Board

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 taken into account for the purposes of the below. Furthermore, directorships in entities that belong to the same group are reported as one in the following table.

Position with the Company	Other Directorships - Executive	Other Directorships - Non Executive
Patrick Boghos	1	0
Mirella Mansour	1	0
Agamemnon Ioannides	0	2
Konstantinos Leonida	0	1

It should 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.

3.5 Committees

Investment Committee

The Investment Committee consists of the Managing Director, the General Manager and the Head of Own Dealing. Committee members discharge their duties solely in the joint interest of the clients and the Company, and exercise the care, skill, prudence and diligence that a prudent man, acting in a like capacity would apply in the conduct of a similar enterprise.

The Investment Committee is primarily responsible for investment policy and the monitoring of the provision of adequate investment services to Clients. During the year the investment policy was established as far as the investments are concerned which correspond to the Company's risk profile, as applicable. These general and overall decisions related to various sectors of the economy across multiple regions and countries, general macroeconomic indicators, types of Financial Instruments, types of financial markets and market segments. Further, these decisions are notified to the relevant Heads of the Departments of the Company, as necessary, to enable discharging of their duties in an effective manner. As far as investments are concerned and when related to specific investment strategies, these decisions are of a prescribed content.

Risk Management Committee

The Risk Management Committee consists of the Managing Director, the General Manager and the head of own dealing department and meets at least once per year, unless the circumstances require extraordinary meetings.

Committee members discharge their duties solely in the joint interest of the clients and the Company, and exercise the care, skill, prudence and diligence.

The Risk Management Committee is primarily responsible for managing and assessing the credit, market and operational risks resulting from the Company's operations, and as part of its responsibilities it has to set out, approve and regularly update the Company's risk strategy as well as to monitor all risks on an ongoing basis. The Risk Management Committee's main responsibilities may be summarized as follows:

- Ensure the efficient management of the risks inherent in the provision of the investment services to clients as well as the risks underlying the operation of the Company;
- Monitor and control the Risk Manager in the performance of his duties;
- Establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities and processes;
- Monitor the adequacy and effectiveness of the risk management policies and procedures; and
- Monitor the investment risks undertaken by the Company and by each client on an individual basis.

A description of the information flow on risk to the BoD is provided in Annex I. The relevant functions of the Company (e.g. Internal Audit, Compliance) prepare and provide any other ad hoc reports to the Board if needed.

4. Control Functions

4.1 Risk Management function

The Risk Management function operates independently from other functions and is responsible for monitoring the following:

- The adequacy and effectiveness of the Company's risk management policies and procedures;
- The level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted to manage and control risks; and
- The adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures.

In addition, a qualified and experienced Risk Manager is appointed for heading the Risk Management function of the Company. His duty is to monitor all risks that have been identified as potential risks for the Company and report on them to the Risk Management Committee, the Senior Management and the Board, as requested and as applicable. The Risk Manager carries the responsibility for preparing the following reports:

- In the event of any deficiency, a report is immediately submitted to the Board of Directors indicating whether the appropriate measures have been taken to remedy the deficiency in question; and

- On a frequent basis and at least annually, a report is made to the Board stating the different risks faced by the Company during the reference year and discussing the measures taken to manage these risks, while also commenting on the adequacy of the said measures and the need for further action.

4.2 Internal Audit

The Internal Audit function ensures that there is adequate planning, control and recording of all audit and review work performed, that there is timely reporting of findings, conclusions and recommendations to the Board of Directors, and that matters or risks highlighted in the relevant reports are followed up and resolved satisfactorily. The Internal Auditor reports directly to the Board of Directors though a written report prepared annually. More specifically, the Internal Auditor shall be separate and independent of the other functions and activities of the Company.

The Internal Auditor shall bear the responsibility to:

- Establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements;
- Issue recommendations based on the result carried out in accordance with the aforementioned procedure in the point above;
- Verify compliance with the recommendations of the previous point; and
- Provide timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.

The Board shall ensure that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board shall ensure all issues are dealt with and prioritized according to its assessment.

The following obligations of the Internal Auditor shall apply specifically for the prevention of money laundering and terrorist financing:

- The Internal Auditor shall review and evaluate, at least on an annual basis, the appropriateness, effectiveness and adequacy of the policy, practices, measures, procedures and control mechanisms applied for the prevention of money laundering and terrorist financing;
- The findings and observations of the Internal Auditor, in relation to the point above, shall be submitted, in a written report form, to the Board; and
- The Board shall meet and decide the necessary measures that need to be taken to ensure the rectification of any weaknesses.

4.3 Compliance and Money Laundering Officers

The Compliance and Money Laundering Officers are independent of all operational and business functions and reports directly to the Board of Directors. More specifically, the officers has the following duties:

- To review changes in legislation and assess the implications for the Company;
- To develop specific compliance procedures and provide guidance to management on compliance issues;
- To assure that legal and regulatory responsibilities are understood and are taken into account when new activities or changes in the business are under consideration;
- To perform ad-hoc projects or reviews as requested by the supervisory authorities, the General Manager or the Head Office;
- To train and educate staff with regards to their and the Company's responsibilities;
- To advise management on the best way to achieve cost-effective compliance;
- To report breaches of the rules to the related regulatory authorities and assist monitoring teams during inspection visits;
- To invite and accept personnel reports prepared with relation to any suspicious issues that may arise;
- To immediately report to the Board of Directors and the Internal Auditor once confirming the matter's existence, providing solutions and/or recommendations; and
- To draft written reports to the Senior Management and the Board of Directors, making recommendations and indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies, at least annually.

The Company's risk policies, measurements and reporting methodologies are subject to regular review, particularly prior to the commencement of the provision of new services or products, or when there are significant changes to the products, services or relevant legislation, rules or regulations that might impact its risk exposure.

The following are the basic principles of the Compliance Function:

- Monitoring and assessing the adequacy and effectiveness of the measures and procedures put in place;
- The actions taken to address any deficiencies in the Company's compliance with its obligations under the applicable legislation;
- Advising and assisting the relevant persons responsible for carrying out the investment services and activities to comply with the Company's obligations under the applicable legislation; and
- Establishing and maintaining adequate Chinese Walls procedures.

5. Board Declaration - Adequacy of the Risk Management Arrangements

The responsibility of the overall risk management and/or assessment lies with the Board of Directors of the Company. The Board of Directors needs to identify, assess, monitor and control each type of risk on a continuous basis.

More specifically, when managing and/or assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- Decide on the Company's risk bearing capability and strategy ensuring they are on the same page in terms of appetite for risk in executing the Company's strategy and making sure the stakeholders understand the stance of the Company;
- Review the Risk Assessment Report prepared by the Risk Manager and take appropriate action where necessary; and
- Ensure that the Company has the ability to cover its financial needs and capital requirement at any time.

The Board believes that it has in place adequate systems and controls with regards to the Company's profile and strategy, and various assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

6. Risk Statement

The Company's Risk Statement is provided in Annex II. This is approved by the Board and describes the Risk Appetite and its link to the overall strategy.

7. Principal risks

The principal risks that the Company is exposed to are the following:

- Credit risk
- Liquidity risk
- Market risk
- Compliance risk
- Operational risk
- Other regulatory risks

Further information on each principal risk is provided in the sections below.

Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has credit exposure to the banks with which it deposits funds.

The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.
The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

Furthermore, Counterparty Credit Risk ("CCR") may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial derivative instruments, repurchase agreements and long settlement transactions.

The company takes margin cash deposits as funded credit protection (collateral) for derivatives and uses the Financial Collateral Comprehensive Method for calculation of the funded credit protection.

Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. The Company holds in separate accounts all the funds of its clients. Therefore the company considers liquidity risk to be significantly low.

Market Risk

Price Risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company's available-for-sale financial assets and financial assets at fair value through profit or loss are susceptible to market price risk arising from uncertainties about the future price of the investments. The Company's market price risk is managed through diversification of its investment portfolio. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currency of the Company which is the Euro.

In particular, the Company is exposed to foreign exchange risk arising from various currency exposures with respect to the USD.

The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. The Company considers interest rate risk to be significantly low.

Compliance Risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Company's management regularly reviews the Company's operations to ensure that the risk of losses resulting from fraud, errors, omissions and other operational and compliance matters, is adequately managed. Operational matters include:

- Physical and functional segregation of incompatible duties such as trade, settlement, risk management and accounting;
- Effective segregation of the Compliance and Internal Audit functions from line operational duties and related supervisory functions, and direct reporting of their actions to management;
- Maintenance and timely production of proper and adequate accounting and other records, and the ability to detect fraud, errors, omissions and other non-compliance with external and internal requirements;
- Security and reliability of accounting and other information, such as exception reports which should accurately highlight unusual activities and facilitate the detection of fraud, errors and significant trends;
- Staffing adequacy, including personnel with proper and sufficient skills and experience to minimize the risk of loss due to the absence or departure of "key" staff members;
- Implementation of appropriate and effective electronic data processing and data security policies and procedures to prevent and detect the occurrence of errors, omissions or unauthorized insertion, alteration or deletion of, or intrusion into, the Company's data processing system (electronic or otherwise) and data (covering all confidential information in the Company's possession, such as clients' personal and financial information and price sensitive information);
- Daily and weekly back-up of the Company's server, which includes client personal information and client transaction details, among others;
- Use of error reports for the purpose of locating system errors and taking immediate action to resolve them.

Other regulatory risks

The Company is regulated by CySEC and its current operations are expected to be affected by the circulars issued by the regulator.

CySEC is revising the standards required for the provision of investment services by CIFs and establishes new standards relating to the nature, characteristics and trading methodology of these instruments. The Company's Management reviewed its policies and arrangements to ensure that it is fully compliant with the underlying provisions and undertakes corrective measures, where necessary.

The implementation of the MiFID II does not have a significant impact on the Firm's operations, such as structural changes, increased transparency and reporting obligations and investor protection issues.

The Company's management is unable to predict all developments and/or decisions that will be taken by ESMA and/or CySEC which could have an impact on the industry and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Company. The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

Other Risks

The general economic environment prevailing in Cyprus and internationally may affect the Company's operations to a great extent. Economic conditions such as inflation, unemployment and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas, thus affecting the Company.

8. Capital Buffers

<u>Regulatory Capital Buffers</u>

CRD IV is transposed into national laws, which allows national regulators to impose additional capital buffer requirements. Based on the provisions of the Macroprudential oversight of Institutions Law of 2015 which came into force on 1 January 2016, the Central Bank of Cyprus (the "CBC") is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

Further to the above, the Macroprudential Authority has decided to activate the capital conservation buffer (the "CCB") having exercised its power. The CCB will be phased-in gradually, starting from 1 July 2016 at 0.625% and increasing by 0.625% every year thereafter, until being fully implemented (2.5%) on 1 January 2019. The Company was obliged to maintain a 1.875% CCB in addition to the CET1 capital maintained for the year 2018 to meet the own funds requirement imposed by Article 92 of the CRR while for the year 2019 the Company is required to maintain a 2.5% CCB in addition to the CET1 capital buffer.

According to paragraph 52(2) of the Directive, the Macroprudential Authority may exempt small and medium sized CIFs from holding an institution specific CCyB, in addition to their CET 1 Capital. The Company is obligated to maintain an institution specific CCyB until the next CBC's assessment is made. The institution specific CCyB rate of the Company for 31 December 2018 was 0% since it was not exposed to jurisdictions that the CCyB was over than zero.

In accordance with the provisions of this law, the CBC sets, on a quarterly basis, the Countercyclical Capital Buffer (the "CCyB") level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB rate for Cyprus at 0% for 2018.

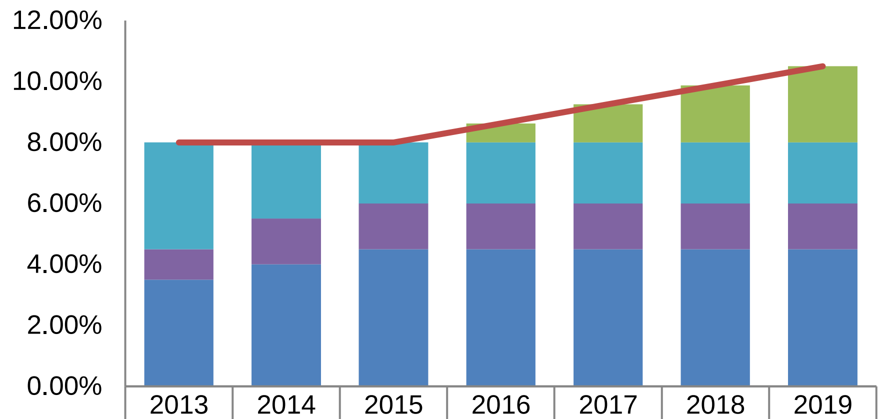
In addition, full scope CIFs are required to maintain an institution specific CCyB equivalent to their total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates. At present, based on ESRB and BIS website, the countries that have adopted a positive countercyclical capital buffer rate are as shown in the map below:

The Macroprudential Oversight of Institutions Law, 2015, also requires the maintenance of additional capital buffer by the systemically important credit institutions and investment firms either at the national level, or at the EU level, referred to as Other Systemically Important Institutions ("O-SII").

The O-SII capital buffer reflects the cost for an institution of being systemically important and reduces the moral hazard from the support of the institution from the state and the taxpayers and compensates for the higher risk it represents for the national financial system and the potential consequences of its failure. The Company is not obliged to maintain a O-SII capital buffer as it is not a O-SII institution.

The below graph illustrates the transitional increase of the applicable buffers up to the year 2019:

Regulatory Capital Buffers up to 2019



	2013	2014	2015	2016	2017	2018	2019
Conservation Buffer	0%	0%	0%	0.625%	1.250%	1.875%	2.500%
Tier II	3.50%	2.50%	2.00%	2.00%	2.00%	2.00%	2.00%
Additional Tier I	1.00%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Common Equity Tier I	3.50%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%
Total Capital Ratio	8.00%	8.00%	8.00%	8.63%	9.25%	9.88%	10.50%

According to the Policy Statement, Full Scope CIFs that maintain LP Contractual Arrangements with entities located in non-equivalent third countries, are required to maintain an additional capital buffer. In this respect, since the Company's Liquidity provider is located in an EU Country, the Company is not required to hold additional capital as per the provisions of the Policy Statement.

Moreover, the Company has considered and addressed the risks emanating from the NBP in the context of their ICAAP.

9. Capital Base

The Capital Base of the Company as at 31 December 2018 consisted solely of Common Equity Tier 1 (CET1) capital, i.e. wholly paid up share capital and retained profits. Deposit compensation fund is being deducted along with net value of intangible assets. CySEC requires licensed CIF such as Bogofinance Capital Markets Limited to maintain a minimum ratio of capital to risk weighted assets of 8% and may at any time impose additional capital requirements for risks not covered by Pillar I.

As at 31 December 2018 the Capital Adequacy Ratio of the Company was 31,45%. The following table shows a breakdown of the Own funds of the Company as at 31 December 2018:

Own Funds Breakdown

	EUR

Capital Instruments	**€000**
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	730
Retained earnings	(24)
Other Reserves	867
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**1,572**
Additional deductions of CET1 Capital due to Article 3 of the CRR (*)	(60)
Intangible Assets	(64)
Common Equity Tier 1 (CET1) capital	**1,448**
Additional Tier 1 (AT1) capital	**-**
Tier 1 capital (T1 = CET1 + AT1)	**1,448**
Tier 2 (T2) capital	**-**
Total capital (TC = T1 + T2)	**1,448**
Risk weighted assets	
Credit risk	710
Market risk	2,938
Operational risk	956
Total risk weighted assets	**4,605**
Capital ratios and buffers	
Common Equity Tier 1	**31.45%**
Tier 1	**31.45%**
Total Capital	**31.45%**
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or)-SII buffer), expressed as a percentage of risk exposure amount)	6.375%
of which: capital conservation buffer requirement	1.875%
of which: counter cyclical buffer requirement	-
of which: systemic risk buffer requirement	-
CET1 available to meet buffers(**)	23.45%

**Treatment pursuant to Circular C162 (Capital adequacy requirements - Change in the treatment of the Investors Compensation Fund ("ICF") Contribution) on 10 October 2016, according to which the contribution to ICF will no longer be risk weighted as an "exposure to public sector entities" pursuant to paragraph 13(3) of Directive DI144-2014-15. The said ICF exposure will be deducted from CET1 Capital pursuant to Article 3 (Application of stricter requirements by institutions) of the CRR. The aforementioned Article gives the member states the power to request from the institutions to hold own funds in excess of those required by the CRR.*
*** Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets).*

Share Capital

The Company's share capital consists of 730.000 ordinary shares. The Company manages its capital to ensure that it will be able to continue as a going concern.

In order to meet the requirements for disclosure of the main features of these instruments, the company discloses the capital instruments' main features as outlined below:

Main features of capital instruments

Capital Instruments Main Feature	**CET1**
Issuer	Bogofinance Capital Markets Ltd
Regulatory Treatment	
Eligible at Solo/(sub-)consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	EUR 730.000
Nominal amount of instrument	EUR 730.000
Issue Price	Various
Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior approval	No
Coupons / Dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A

The Company's capital resources consist of CET1 Capital. No additional Tier 1 or Tier 2 capital available.

Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, filters, deductions and the balance sheet in the audited financial statements of the institution as follows:

Balance Sheet Reconciliation

	2018
	€000
Equity	
Share capital	730
Retained earnings	(24)
Other reserves	867
Total Equity as per the Audited Financial Statements	**1,572**
Regulatory Deductions	
Additional deductions of CET1 Capital due to Article 3 of the CRR	(64)
Intangible Assets	(60)
Total Own funds as per the CoRep Forms	**1,572**

10. Minimum required Own Funds for Pillar I Capital Requirements

The Company assesses its needs under Pillar I for credit, market and operational risk. As shown in Table 4, the total capital requirements of Bogofinance Capital Markets Limited as at 31 December 2018 amounted to Euro 381 thousand producing the following capital ratios:

Capital Ratios as at 31 December 2018

CET1 ratio	31.45%
T1 Capital ratio	31.45%
Total Capital Adequacy ratio	**31.45%**

The CET1 ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar I risks. The Tier 1 ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar I risks and the total capital adequacy ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering Pillar I risks.

The Company aims to always maintain a high capital adequacy ratio, well above the required minimum of CET1 of 8% + regulatory buffers (Capital Conservation Buffer).

Capital Requirements per Category of Risk

Risk Category	As at 31/12/2018 (Euro '000)
Credit Risk	710
Market Risk	2,938
Operational Risk	957
Total Capital Requirements	**4,605**
Capital Adequacy Ratio	**31.45%**
Minimum Capital Ratio Requirement	**9.875%**

10.1 Credit Risk

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

The following table presents the allocation of credit risk exposures by asset class, as at 31 December 2018:

Credit Risk Exposure by Asset Class

Asset class	Average Exposure during 2018 (Euro '000)	Exposure before and after CRM (Euro '000)	Risk Weighted Assets	Capital Requirements
Corporate	423	166	166	116

Institutions	2,007	2,007	492	39
Other Items	49	49	52	4
Retail (Trading Book)	5	0	0	0
Total	**2,484**	**2,222**	**710**	**159**

The table below presents the Company's exposures by residual maturity. We note that the Company does not keep any collateral in relation to its credit risk exposures from the banking book.

Credit Risk Exposure by Residual Maturity

Asset class	As at 31/12/2018 (Euro '000)		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
Corporate	420	3	**423**
Institutions	1,876	131	**2,007**
Other Items	14	35	**49**
Retail	5	-	**5**
Total	**2,315**	**169**	**2,484**

The following table presents the geographic distribution of the credit risk exposures of the Company, as at year end:

Credit Risk Exposure by Country

Asset class	As at 31 December 2018 (Euro '000)					
	Cyprus	Switzerland	United Kingdom	Lebanon	United Arab of Emirates	Total
Corporate	4	0	0	419	0	**423**
Institutions	1,373	576	58	-	0	**2,007**
Other Items	49	-	-	-	0	**49**
Retail	-	-	-	5	0	**5**
Total	**1,426**	**576**	**58**	**424**	**0**	**2,484**

The table below analyses the Company's credit risk exposures by industry sector.

Credit Risk Exposure by Industry

Asset class	As at 31/12/2018 (Euro '000)		
	Financial	Other	Total

Corporate	3	419	**423**
Institutions	2.006	1	**2,007**
Other Items	-	49	**49**
Retail	-	5	**5**
Total	**2,009**	**473**	***2,484***

For rating its credit risk exposures, the Company uses the credit ratings of Moody's. The Company has used the credit step mapping table below to map the credit assessment of Moody's to Credit Quality Steps ("CQS").

General ECAI association with each credit quality step

Credit Quality Step	Moody's Rating	Institutions Risk Weight		Sovereigns Risk Weight	Corporate Risk Weight
		Residual Maturity up to 3 months	Residual Maturity more than 3 months		
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 or lower	150%	150%	150%	150%

A breakdown of exposures before and after Credit Risk Mitigation ("CRM") by CQS is provided in the table below:

Credit Risk Exposure by CQS

Asset class	As at 31/12/2018 (Euro '000)				
	CQS 1	CQS 3	CQS 5	N/A	Total

Corporate	-	3	108	312	**423**
Institutions	632	1,374	-	1	**2,007**
Other Items	-	49	-	-	**49**
Retail	-	-	-	5	**5**
Total	**632**	**1,425**	**108**	**319**	***2,484***

Impairment, Past Due exposures and Provisions

As at 31 December 2018, the Company did not have any impaired or past due exposures, nor did it make any provisions.

10.2 Market Risk

As at year end, the Company was exposed to currency risk, arising from its exposures in the USD, SEK, GBP, AUD and JPY. The capital requirement that resulted from these exposures, based on the Standardised Approach for Market Risk, amounted to Euro 234 thousand.

10.3 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. It is inherent in every business organization and covers a wide range of issues. The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

In addition, the Company has developed, implemented and maintains an Operational Risk Management Framework, congruent with the Policy and the principles of the Capital requirements (CRR/CRD IV) framework. The Operational Risk Management Framework provides the strategic direction and guidelines on operational risk in order to ensure that an effective operational risk management and measurement process is adopted throughout the

Company. The Framework also provides for the consistent and comprehensive capture of data elements needed to measure and verify the operational risk exposure, as well as to implement appropriate reporting systems and mitigation strategies.

Further to the above, the company has in place controls and procedures in order to reduce the operational risk as follows:

- Monitoring of the effectiveness of policies, procedures and controls;
- Use of systems to automate processes and controls to eliminate risk due to human error;
- Ongoing maintenance of procedures to prevent unauthorised actions and errors;
- Use of training to reduce the likelihood of human error arising from lack of expertise
- Maintaining risk registers in the context of ICAAP; and
- Maintaining a four-eye structure and implementing board oversight over strategic decisions made by the heads of departments;

Furthermore, the Company has in place additional policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk. Such policy and process is the Business Continuity and Recovery Plan. The Company acknowledges that a significant hazard exists to its ability to continue normal business procedures following unexpected incident. Moreover, the Company has an important dependency with its automatic systems and processes. As a result, a recovery plan is needed in order to deal with the risk of potential disaster.

The objectives of this plan are to provide:

a) continuing operations so that the Company can offer its services to the clients,
b) business and records protection,
c) a framework for risk and exposure controlling,
d) measures against risks.

For the calculation of the Operational Risk in relation to the capital adequacy reports, the Company uses the Basic Indicator Approach (BIA). Under the BIA, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator. Consequently, based on the relevant calculations the Company's exposure to Operational Risk, as at 31 December 2018, was **EUR 956k** as provided by the table below:

The table below shows the Company's exposure to Operational Risk:

Operational Risk capital requirements

2018	Year -3	Year -2	Last Year	Total Exposure	Capital Requirements
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Total	551	884	95	956	76

Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the average of three years of the above relevant indicator, resulting to **€30k** capital requirements.

11. Remuneration Disclosures

The remuneration policy of the Company is set by the Senior Management and the Board of Directors. The remuneration levels of management and staff are determined after taking into consideration each person's skills, knowledge and performance of his/her duties, as well as the rates that prevail in the market for similar positions.

As a small Cyprus Investment Firm, Bogofinance Capital Markets Limited does not have a Remuneration Committee. Salary increases are decided by the shareholder after receiving feedback from the executive directors with regards to the performance of each employee and the Company as a whole.

In 2018, the remuneration structure of Bogofinance Capital Markets Limited included only fixed monthly salaries and not any variable cash or non-cash compensation.

The table below presents the 2018 annual gross remuneration of Senior Management and other staff whose actions have a material impact on the risk profile of the Company. Senior Management consists of the Company's Managing Director, General Manager and the rest of the Non-Executive Directors.

Gross Remuneration of Management Body and Other Staff

	As at 31/12/2018 (Euro'000)		
	Cash-fixed	**Cash-variable**	**Total**
Senior Management (incl. Executive Directors)	106	-	**106**
Other Staff	131	-	131
Total	**237**	-	**237**

Due to the size of the Company, the remuneration was not broken down by business area. Moreover, the Company's variable remuneration for the year 2018 is zero.

Staff cost can be found in Note 8 and director's remuneration and note 20 of the Audited Financial Statements as at 31 December 2018.

There was no deferred remuneration, new sign-on or severance payment made in 2018.

12. Annexes

Annex I – Information flow on risk to management body

	Report name	Report description	Owner of report / preparer	Recipient	Frequency
1	Internal Audit Report	Evaluation of the Company's financial and operational business activities, including its corporate governance, risk management and management controls and compliance with laws and regulations	Internal Auditor / Outsourced	BoD	Yearly
2	Compliance AML Report	Report relating to the Company's Compliance with AML law and regulations	AML officer	BoD	Yearly
3	Compliance Report	Report relating to the compliance with all applicable laws, rules and regulations	Compliance Officer / Outsourced	BoD	Yearly
4	Risk Management Report	Report on the different risks faced by the Company during the year and measures taken to manage these risks	Risk Manager	BoD	Yearly
5	Suitability Report	Client's money audit	External Auditor	BoD	Yearly

Annex II - Board Approved Risk Statement

The Bogofinance Capital Markets Limited has made a long-term commitment to help the professional investment communities grow and develop. BOGOFINANCE provides international financial products, services and solutions for its partners and clients worldwide. In the future BOGOFINANCE will continue focusing on financial innovation in the global investment community and will promote the steady development of international financial markets. The Company's strategy is tracked within a defined Risk Appetite.

The Board defines the Risk Appetite through a number of key Risk Measures which outline the level of acceptable risk across the following categories:

- **Financial:** credit, liquidity and market risks
- **Reputational:** customer, regulatory and conduct risk
- **Operational and People:** systems risk, execution risk, risk of legal action, and not having the right quality of people to operate those systems and processes.

All the above measures support Bogofinance Capital Markets Limited to achieve its objectives and manage the profitability of the Company. The BoD, the Risk Manager and the Risk Management Committee review these measures on a regular basis to make sure that the Company will be profitable in case of economic stress conditions.

In 2018 the Company performed the following tests:

Risk Factor	Risk Management Procedures/Findings
	Credit Risks
Default of Counterparty	Regular credit review of counterparties by the investment control committee. Formal Annual review will be performed where counterparties will be assessed and evidence of their financial details will be kept.
Default of Credit Institution	The company uses European banks (lower default risk)
	Deposit funds with European banks. The company is using also Lebanese bank for serving its client from Lebanon. Proper due diligence is performed over selection of banks.
	Request have been sent to credit institutions for the recognition of trust status under which client money are held
	Diversifies funds over several European banks
AML Risk	The Company has implemented comprehensive AML compliance procedures
	The Company has implemented a comprehensive AML compliance training program for all of its staff which is reassessed on a yearly basis by the compliance officer
	The Company only accepts bank transfers, bank cheques and payments using bank cards, all of which originate from authorised credit institutions. No cash deposits were accepted during the year.
	Market Risks
	The opening of new deals is limited up to a level which they are backed up by the available capital adequacy of the Company

Foreign Exchange Risk	The Company acts as a Market Maker to transactions performed by the clients, Capital adequacy, exposures and liquidity is assessed on a daily basis. The company signed agreements with Liquidity Providers in case hedging client positions is necessary.
Interest rate risk	The Company's finance department continually monitors on an ongoing basis the performance all of all the Company's interest bearing assets. The Company's current policies will not change in the foreseeable future
	Operational Risks
Risk of business being disrupted due to natural disaster	The Company has prepared a comprehensive business contingency and disaster recovery plan with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure,
Systems Risk	· Hardware – internal monitoring software monitors the key components, such as disk space, CPU utilization, memory, etc. · Quotes – since the quotes are the heart of the application, there are backup quotes channels; if the primary channel fails the system automatically and immediately switches to the backup channels. Arrangements with liquidity providers have been made for the provision of price feeds.
	IT support and development with respect to the trading platform is conducted by IT department of the Company (The IT department is outsourced)
Execution Risk	Competent and trained employees
	Appropriate procedures for the receipt and transmission of client orders.
	The majority of orders for exchange traded derivatives are received via an electronic order routing system and thus, the likelihood of an error arising in executing an order is remote.
	For orders received via the trading platform, the execution risk rests with the client.
	Dealing desk telephone lines are recorded.
Confidentiality, Availability and Integrity risk	Access Rights controlled by IT department in separate office
	The Four Eyes of the company must approve access rights
	The company regularly performs checks on staff access rights
Staff Competency Risk	· The Company has addressed the issues ensuring that it has procedures in place to monitor, supervise and train its employees
	· The company organizes regular and repeated training of the Company's staff with regard to the Company's internal procedures
Misleading information to clients	The compliance officer ensures the accuracy of any statements made during the marketing and advertising processes. The officer also ensures that the information addressed to the client is fair, clear and not misleading

Money Laundering Risk	The Company has employed an anti-money laundering compliance officer, one of his responsibilities is to ensure that proper screening of clients is carried out
Employees not carrying out their duties as per internal procedures	Internal audit visits to ensure that employees comply with the Company's internal procedures and the Company's organisational structure enables the heads of departments to monitor all activity closely and
Risk of legal action	The Company obtains continuous legal advice and suggestions on the preparation of its legal documents.
	Other Risks
Liquidity Risk	The Company maintains sufficient cash reserves as well as flexibility in funding by maintaining the capital in liquid form
Reputation Risk	Due to the dynamic nature of the financial services sector new risks might arise during the course of operations.
	The Board of Directors, the Compliance Officer and the Internal auditor will continuously monitor the operations of the company and where appropriate additional risk management measures will be implemented and notified to CySEC.