



Pillar III Disclosures (Market Discipline & Disclosure)

Year Ended 31 December 2019

Version 1.1 Final – Last Updated: July 2020

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

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1. Introduction

1.1. Corporate Information

Emporium Capital K.A Ltd ("the Firm") is authorized and regulated by the Cyprus Securities and Exchange Commission ("CySEC") as a Cyprus Investment Firm ("CIF") to offer Investment and Ancillary Services under license number 358/18. The Firm received its CIF authorization on 5 June 2018 and was added on the public register of the CySEC for CIFs on 1 November 2018. The Firm had limited operations in 2019.

The Firm is authorized to provide the following investment and ancillary services:

Investment Services

- Reception and transmission of orders in relation to one or more financial instruments

Ancillary Services

- Safekeeping and administration of financial instruments, including custodianship and related services
- Foreign exchange services where these are connected to the provision of investment services

1.2. Pillar III Regulatory Framework

The Pillar III report is prepared in accordance with the Capital Requirement Regulation (CRR) and the Capital Requirements Directive IV (CRD IV). The CRR and CRD IV set the prudential requirements for capital, liquidity and leverage that entities need to follow.

The new regulatory framework consists of three Pillars:

- **Pillar I** sets out the requirements on calculating the minimum capital required for the Firm to be able to cover credit risk, market risk and operational risk.
- **Pillar II** requires firms to assess their capital requirements in light of any specific risks not captured, or not adequately captured, in the Pillar I calculations.
- **Pillar III** seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management practices.

The Firm has prepared these disclosures in accordance with the requirements of Part Eight of the Regulation.

1.3. Basis and Frequency of Disclosure

- This document represents the disclosures of the Firm, in accordance with the Pillar III requirements. The objective of the disclosures is to inform all stakeholders about the risks the Firm is exposed to, its risk management policies and procedures as well as the Firm's own funds, capital adequacy ratio and leverage ratio.
- All disclosures mentioned below are in line with the Firm's audited Financial Statements, which are prepared in accordance with the International Financial Reporting Standards. The information that is disclosed in the report is adequate in order to meet all Pillar III requirements as set out by the CRR.
- The Pillar III disclosures can be found at our website: www.emporiumcapital.com.
- The Pillar III Disclosures have been reviewed and verified by the Firm's Board of Directors.
- The Firm's independent auditors reviewed the Pillar III Disclosures and, in accordance with Directive DI144-2014-14 of CySEC ("the Directive"), a copy of the auditor's verification report shall be submitted to CySEC by the end of July.

- The Firm is making the disclosures on an individual (solo) basis.

2. Risk Management Objectives and Policies

2.1. Risk Management Policies

Introduction:

The Risk Management Policy aims to explain the approach taken by the Firm towards the risk confronted by the Firm and the principles guiding its approach. The analysis refers to the risks confronted by the Firm and the strategies employed for their mitigation or elimination. Importantly, the approach of the Firm's management and the resulting policy adopted regarding the issue of risk is exemplified throughout.

This Policy is divided into three subcategories. Firstly, the main risks confronted by the Firm and the mitigation strategies that should be implemented. Secondly, the risk management procedures that may be used by the Firm and thirdly, the most significant investment risks that most investors are exposed to by investing in the financial markets are discussed.

RISKS AND MITIGATION STRATEGIES

The Firm shall implement and maintain adequate risk management policies and procedures which identify the risks relating to the Firm's activities, processes and systems, and where appropriate, set the level of risk tolerated by the Firm. The Firm shall adopt effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

2.1.1 Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal risk.

The Firm could be exposed to Operational Risk resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk is also the broad discipline focusing on the risks arising from the people, systems and processes through the operations of the Firm. The Operational Risk also includes other classes of risk such as fraud risk, regulatory reporting risk, conflicts of interest risk, employee personal account dealing risk and confidential information risk.

Categories of Operational Risk and Mitigation

Below, we provide sub-categories of operational risks that the Firm may be exposed to:

2.1.1.1 Marketing & Advertising Risk

The risk that the Firm will not correctly promote its services in a sense that fails to meet required standards of conduct under law, regulations or internal policy.

Mitigation of Risk:

A specialized department should be dedicated for promoting Firm's services. All marketing materials should be prepared in cooperation with professionals specialized in the financial service field.

The Compliance Officer must ensure the accuracy of any statements made during

the marketing and advertising processes and ensure that the information addressed to the client is fair, clear and not misleading.

2.1.1.2 Regulatory Reporting Risk

The risk that the Firm fails to meet its responsibilities to report certain information/reports to CySEC, or other parties under law.

Mitigation of Risk:

The Compliance Officer will ensure that proper information/reports are sent on time to CySEC.

2.1.1.3 Internal Procedures and Risk Controls

The risk that activities conducted by the employees are not appropriate and in accordance with the Firm's operations manual and/or are not appropriately supervised on a day to day basis.

Mitigation of Risk:

- Firm's operations manual should be provided to all employees.
- Training programs should be provided to Firm's staff.
- Management should formally communicate duties and responsibilities to employees.
- Continual assessment must be performed by department heads of the competency of their staff.
- Internal audit visits should be implemented to ensure that employees comply with the Firm's internal procedures.

2.1.1.4 Client Communication Risk

The risk that the Firm will fail to observe communication protocols required under the law or regulations when dealing with clients. This may include:

- Failure to send a communication when required;
- Sending an inappropriate or illegible communication;
- Failure to provide satisfactory responses to clients' complaints; or
- Failure to include or meet minimum requirements in a communication.

Mitigation of Risk:

A system should be created by the Firm, which automatically sends all required documents that need to be read and accepted by the client before they can open an account with the Firm. This will ensure that clients are well informed before they enter into the agreement.

Furthermore, the Compliance Officer should ensure that such actions, responses to clients etc. will comply with the internal control procedures, law or any other applicable regulations.

2.1.1.5 Chinese Walls Risk

The risk that material non-public information, which is obtained by a specific department during the normal course of its activity, will be made available or accessible to another department, client or other external person, who should not otherwise have access to that information.

Mitigation of Risk:

- Physical barriers should be established for controlling the flow of information between departments.
- Employee trading should be reviewed through effective maintenance of some combination of "watch", "restricted", and "rumour" lists.
- Personal employee trading should be carefully monitored.
- The Compliance Officer should review client accounts regularly and any heavy patterns of trading in particular securities by any employee or firm member should be investigated.

2.1.1.6 Damage to Physical Assets Business Disruption & Systems Failures Risk

The risk of losses arising from loss or damage to physical assets from natural disaster or other events. It is also the risk of losses arising from disruptions of business or system failures.

Mitigation of Risk:

The Firm should create a comprehensive and detailed business contingency plan (disaster recovery plan) with recovery procedures and actions to be followed in the case of damage to any vital part of the Firm's structure.

2.1.1.7 Employment Practices and Workplace Safety Risk

The risk of having losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events (e.g. compensation).

Mitigation of Risk:

- The Firm should ensure that premises and fixtures and fitting are maintained on a regular basis.
- The Firm should purchase insurance, covering employee's liability and covering costs of a potential injury of personnel.
- A formal process should be implemented through which potential complaints can be filed, investigated and reviewed.
- Staff appraisals should be conducted on an annual basis by the Human Resources department and topics such as compensation or other benefits or complaints should be discussed.

2.1.1.8 Fraud Risk

Fraud Risk that may arise from both internally and externally is the risk that results from amongst other things, misappropriation of assets, corruption and fraudulent financial statements.

Mitigation of Fraud Risk

- In order to manage its Fraud Risk, the Firm:
- Applies good governance policies.
- Ensures ethical behavior within the Firm, according to the Code of Ethics and other related policies.
- Oversees the qualifications, independence and performance of its internal and external auditors.

- The auditors present to the Board of Directors the Firm's financial results prior to their publication.

Also, the Firm:

- Ensures the accuracy of the financial statements and any announcements in relation to the financial performance of the Firm.
- Monitors and assess the adequacy and effectiveness of the Firm's internal systems and controls, based on data and information produced by the internal and/or external auditors and/or other competent authorities.
- Establishes procedures for the receipt, retention and resolution of complaints received in relation to accounting and/or auditing issues and ensure the confidential submission of such complaints, through the route outlined in the Whistleblowing Policy.
- Establishes procedures for the identification of related party transactions and ensures the review, approval or ratification of such transactions through the route outlined in the Employees Transactions Policy.

2.1.1.9 Conflicts of Interest Risk

The Firm has a duty to ensure that conflicts of interest arising from business activities are identified and resolved in a consistent and appropriate manner. This includes conflicts of interest arising from:

- Individuals acting on behalf of a client where that individual's own interest conflicts with the client's
- External engagements
- Complaints
- Individuals acting in situations where a conflict of interests (or a significant risk) could arise between clients
- Misleading statements
- Gifts and entertainment
- Abuse of position

Mitigation of Conflicts of Interest Risk:

The Firm should institute procedures to be followed in each of the above cases and implement an elaborate conflict of interest policy. The Firm should also have in place a summary conflicts of interest policy, which should be provided to clients before any investment service is provided to them and receive their consent that they have read understood and agreed with it.

2.1.1.10 Pandemic Risk

Pandemics are large-scale outbreaks of infectious disease that can greatly increase morbidity and mortality over a wide geographic area and cause significant economic, social, and political disruption.

Mitigation of Pandemic Risk

The Firm further to the recent developments of the COVID-19 outbreak, which is a current major worldwide issue, follows all of the government and health authorities' guidelines and instructions, regarding the protection measures against the virus. Moreover, the Firm implements additional health and safety measures enabling the Firm to continue its operations in a smooth and moderate manner. Furthermore, the Firm has adapted a dynamic business model, ready to withstand possible market volatilities and anomalies, that are caused due to the rapid

developments of the virus.

2.2 Risk Appetite Statement

The Firm defines Risk Appetite as the level of risk, by type and by business that the Firm is prepared to incur given its strategic targets. Risk Appetite is defined using both quantitative and qualitative criteria.

The Risk Appetite Framework takes into account earnings sensitivities to business cycles and credit, market and operational events. The Risk Appetite is one of the strategic oversight tools available to the Management bodies. It underpins the budgeting process and draws on the ICAAP, which is also used to ensure capital adequacy under stressed economic scenarios.

Furthermore, the positioning of the business in terms of risk/return ratio as well as the Firm's risk profile by type of risk will be analyzed and approved by the BoD. The Firm's risk appetite strategy will be implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks, covering:

- Governance (decision-making, management and supervisory bodies)
- Management (identification of risk areas, authorization and risk-taking processes, risk management policies through the use of limits and guidelines, resource management)
- Supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits)

Essential indicators for determining the Risk Appetite and their adaptations will be regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Firm's risk profile. Such events may give rise to remedial action, up to the deployment of the recovery plan in the most severe cases.

2.3 Adequacy of the Risk Management Arrangements & Risk Statement

The Internal Capital Adequacy Assessment Process ("ICAAP") requires institutions to identify and assess risks not adequately covered in Pillar I, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis, i.e., internal capital supply to exceed internal capital demand.

The Firm maintains compliance with the ICAAP as required under Pillar II of Basel III and its local implementation in Cyprus, through risk management and governance framework, methodologies, processes and infrastructure. The Firm is in the process of updating its ICAAP for the year 2019, in which each risk will be taken into account and be stress tested.

3. Risk Management Framework and Governance

3.1. Board of Directors

The Firm's Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework.

3.1.1. Recruitment Policy

Members of the Board shall possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board shall reflect an adequately broad range of experiences to be able to understand the Cyprus investment firm's activities, including the main risks to ensure the sound and prudent management of the Firm as well as sufficient knowledge, of the legal framework governing the operations a CIF.

3.1.2. Diversity Policy

The Firm is committed in promoting a diverse and wide-ranging workplace at all levels of the organization whether this represents background experience, skills, gender etc. It embraces this diversity in the organization, since it recognizes the benefits of it and on the same time allows it to develop in both its business strategy and developing talent at every level in the organization.

During 2020, the Firm shall implement a formal diversity policy.

3.1.3. Other Directorships

The table below provides the number of directorships a member of the management body of the Firm holds at the same time in other entities. It shall be noted that, directorships in organizations which do not pursue predominantly commercial objectives, such as non-profitmaking or charitable organizations, are not taken into account for the purposes of the below.

Name of Director	Position in the CIF	Total companies in which the person acts as director (including Emporium Capital K.A Ltd)
Charalambos Stavrinides	Executive Director	3
Kaschif Ali	Non-Executive Director	3
Marios Souzou	Independent Non-Executive Director	1
Petros Antoniadis	Independent Non-Executive Director	3
Charalambos Charalambous	Executive Director	3

Mr. Andreas Cleanthous was appointed as an Executive on 29/08/2019 and resigned at 30/10/2019. The management was aware of the need to replace him with another Executive Director in order to satisfy also the 4-eye principle. The management knowing that for this position should have been fit and proper suggested Mr. Charalambos Charalambous. Mr. Charalambos Charalambous has been appointed as director with effective date 04/03/2020 after CySEC's approval.

3.1.4. Reporting and Control

In order for the Firm to have in place procedures that will allow it to monitor its exposure in risky areas, it undertakes certain reporting requirements towards the top management where the decision-making is being carried out.

All the supervisory functions (i.e. Compliance, AML Compliance, Risk Management and Internal Audit functions) of the Firm have an open line of communication with the Board in order to communicate any findings and/or deficiencies they identify in a timely manner and ensure that those will be resolved through the guidance of the Board of Directors.

The following table depicts the various reports and information flow submitted to the Board in relation to the year ended 31 December 2019:

	Report Name	Description	Owner	Recipient	Frequency
1	Risk Management Report	Represents the work & activities undertaken by the Risk Manager during the year	Risk Manager	BoD, CySEC	Annual
2	Compliance Report	To inform the Senior Management & the BoD of the Firm regarding the Performance of Compliance function during the year	Compliance Officer	BoD, CySEC	Annual
3	Money Laundering Compliance Officer Report	To inform the Senior Management & the BoD of the Firm regarding the Performance of Compliance function during the year	MLCO	BoD, CySEC	Annual
4	Pillar III Disclosures (Market Discipline and Disclosure)	The Firm is required to disclose information regarding its risk management, capital structure, capital adequacy and risk exposures	Risk Manager	BoD, CySEC, Public	Annual
5	Internal Auditor Report	To inform the Senior Management & the BoD of the Firm regarding the Internal Auditor during the year	Internal Auditor	BoD, CySEC	Annual
6	Audited Financial Statements	It is a formal record of the financial activities of the CIF	External Auditor	BoD, CySEC	Annual
7	Capital Adequacy Reporting	A measure of the CIF's capital. It is expressed as a percentage and is used to protect depositors and promote the stability and efficiency of financial systems all over the world	Risk Manager / Accounting	Senior Management, CySEC	Quarterly

3.2. Risk Management Function

The Risk Management Function is responsible to monitor the following:

- the adequacy and effectiveness of the Firm's risk management policies and procedures;
- the level of compliance by the Firm and its relevant persons with the arrangements, processes and mechanisms adopted;
- 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 Firm to comply with such arrangements, processes and mechanisms or follow such policies and procedures.

The Firm appointed a Risk Manager and established a Risk Management Committee. The Risk Manager reports to the Risk Management Committee which report directly to the Board of Directors.

4. Capital Management

The Firm manages its capital to ensure that it will be able to continue as a going concern. The adequacy of the Firm's capital is monitored by reference to the provisions of the Capital Requirements Regulation and the CySEC Capital Requirements Directives 144-2014-14 and 144-2014-15 bringing into force the regulatory provisions of Basel III.

The Basel III consists of three pillars:

I. Pillar I – Minimum Capital Requirements

The Firm adopted the Standardized approach for Credit and Market risk and the Fixed Overhead approach for Operational risk. According to the Standardized approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, according to their characteristics and exposure class to which they belong. The Standardized measurement method for the capital requirement for market risk adds together the long and short market risk positions according to predefined models to determine the capital requirement. For operational risk, the Firm is required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year.

II. Pillar II – The Supervisory Review and Internal Capital Adequacy Assessment Processes

Pillar II connects the regulatory capital requirements to the Firm'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.

III. Pillar III – Market Discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Firm, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of own funds. The Firm has included its risk management disclosures 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.

5. Own Funds

The Firm is required to hold sufficient own funds in accordance with the provisions of CRD IV.

The Firm's total capital resources and total capital requirements as at 31 December 2019 are shown in the table below. The Firm's Capital Resources consist of Tier 1 Capital only.

Capital Resources Summary	
	€'000
Eligible Own Funds	
Share Capital	125
Share Premium	491
Retained Earnings	(388)
Own Funds Deductions	
Investor Compensation Fund Contribution	(34)
Original Own Funds (Tier 1 Capital)	194
Tier 2 Capital	-
Total Own Funds	194
Capital Requirements	
Credit Risk	53
Market Risk (Foreign Exchange Risk)	0
Additional Risk Exposure due to Fixed Overheads	572
Total Risk Exposure Amount	625
Capital Adequacy Ratio	31.07%

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

The Firm's own funds never fell below the acceptable level.

5.1. Reconciliation of regulatory capital with the equity figure included in the Firm's Financial Statements

The following table provides the reconciliation of own funds items to the audited Financial Statements as at 31 December 2019.

Reconciliation of regulatory capital with the equity figure included in the Firm's Financial Statements	
	€'000
Total Equity as per Financial Statements	228
Investor Compensation Fund Receivable as per Financial Statements	(34)
Total Tier 1 Capital	194

5.2. Main terms and conditions of capital resources

On 3 July 2019 the Firm issued 1 additional ordinary share of a normal value of €1 at a premium of €66,999. Subscription 4

On 23 April 2019 the Firm issued 1 additional ordinary share of a normal value of €1 at a premium of €139,999. Subscription 5

6. Pillar I Capital Requirements

6.1. Credit Risk

In the ordinary course of business, the Firm is exposed to 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 balance sheet date.

As at 31 December 2019, the Firm did not have any collaterals or guarantees and therefore did not make use of Credit Risk Mitigation techniques.

6.1.1. Risk Weighted Assets

The table below presents the allocation of Credit Risk by exposure class as at 31 December, 2019.

Asset Class	Capital Requirement	Risk Weighted Assets
	€'000	€'000
Institutions	2	38
Corporates	0.005	3
Other	0.8	12
Total	2.805	53

6.1.2. External Credit Assessment Institutions (ECAI) and Credit Quality Steps

The below table displays the mapping of ECAI's credit assessments to Credit Quality Step.

Credit Quality Step	Fitch's assessments	Moody's assessments	S & P's assessments	Corporate	Institutions Risk Weight		Sovereigns
					Maturity more than 3 months	Maturity up to 3 months	
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	50%	100%
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	50%	100%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%

6.1.3. Geographic distribution of exposures

During 2019, the Firm had exposures only located in Cyprus.

6.2. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that affect the Firm's income or the value of its holdings of financial instruments.

As the Firm is not holding any financial instruments, it is not exposed to market risk.

6.2.1. Currency Risk

Currency risk is the risk that the value of an asset will fluctuate due to changes in

foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Firm's functional currency.

As the Firm had balances held in USD and GBP the Firm was exposed to foreign exchange risk.

6.3. Fixed Overhead Risk

Due to the limited authorization of the Firm, the Firm falls under Article 95 of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year. Under this method, the Firm calculates its total Risk Weighted Assets as the higher of the following:

- Sum of risk weighted assets for credit and market risk;
- Operational Risk Weighted Assets based on preceding year fixed overheads.

7. Leverage Ratio

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

As at 31 December 2019, the leverage ratio of the Firm was 124%, well above the 3% minimum ratio set by the Basel Committee.

Summary reconciliation of accounting assets and leverage ratio exposures as at 31 December 2018	
	€'000
Total assets as per published financial statements	240
Tier 1 Capital	194
Leverage ratio	124%

8. Country-by-country Reporting

The below table demonstrates the Firm's country-by-country reporting for the year 2019 as required by paragraph 18 of the Directive.

The Firm did not have any subsidiaries, branches and/or other establishments during 2019, thus, the information included in the below table relates solely to the Firm's operations from its head office in Cyprus.

Jurisdiction	Nature of activities	Average number of employees	Loss before tax	Tax	Public subsidies received
Cyprus	Operational	7	193,225	3	0

9. Remuneration

The Firm established a remuneration policy which is in line with the requirements of the Directive.

The table below presents the remuneration received by the Firm's Directors during the year 2019:

	Number of beneficiaries	Fixed Remuneration €'000	Variable Remuneration €'000	Non-Cash Remuneration €'000	Total €'000
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Executive Directors	1	70	0	0	70
Non-Executive Directors	3	18	0	0	18
Total	4	88	0	0	88