

ANCORIA

— BANK —

banking redefined

PILLAR 3 DISCLOSURES 2016

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1. Introduction

1.1 Incorporation and Principal Activity

Ancoria Bank Limited (the “Bank”) filed an application with the Central Bank of Cyprus for a banking license to enable the Bank to operate as a Credit Institution under the Business of Credit Institutions Laws of 1997 and all amendments thereafter. On 3 November 2014, the banking license was granted by the Central Bank of Cyprus (the “CBC”), subject to certain conditions that needed to be fulfilled before commencement of any banking operations. These conditions have been fulfilled during 2015, and the Bank begun operations as a Credit Institution in October 2015.

The Bank’s principal activity is the provision of a wide spectrum of banking services to individuals and small-to-medium enterprises (“SME”).

1.2 Basel III Framework

The Basel III Framework comprises of three Pillars:

- Pillar 1.** Sets the minimum capital and liquidity requirements the Bank must adhere to and calculation methodology.
- Pillar 2.** Internal self-assessment and supervisory assessment of Bank-wide risk management and capital planning.
- Pillar 3.** Sets external disclosure requirements in terms of frequency and format for uniform assessment of information on the capital structure, risk exposures, internal processes and capital adequacy.

This document represents the Pillar 3 disclosures for the year ended 31 December 2016 in accordance with the requirements of Part Eight of the EU Regulation 575/2013 (the “CRR”). The European Banking Authority (the “EBA”) has published in December 2016 guidelines (EBA/GL/2016/11)¹ regarding the disclosure requirements under Part 8 of the CRR, which the Bank has adopted apart from sections specifically required by Global Systemically Important Institutions (G-SIIs) and Other Systemically Important Institutions (O-SIIs). The purpose of these guidelines is to introduce more specific guidance and formats for the disclosures through the use of tables and templates as a step towards enhancing the consistency and comparability of institutions’ regulatory disclosures.

Pillar 3 disclosures are published on an annual basis on the Bank’s website www.ancoriabank.com, in conjunction with the Bank’s Annual Financial Report. This document provides additional information on the capital and risk profile of the Bank.

1.3 Verification

This report is published by the Bank as per internal policies approved by the Board of Directors (the “Board of Directors”). The Bank’s Pillar 3 frequency of disclosures is included in the Bank’s capital and own funds policy. Verification and their overall appropriateness is done with the

¹ Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (<https://www.eba.europa.eu/-/eba-publishes-final-guidelines-on-revised-pillar-3-disclosures-requirements>)

approval by the Board of Directors. The report has been validated and approved by the Board of Directors and the Bank's Audit and Risk Committees.

The Bank may exempt from this report information which is considered as non-material, proprietary or confidential as per EBA GL/2014/14 guidelines². Information shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Information shall be regarded as proprietary to an institution if disclosing it publicly would undermine its competitive position. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

1.4 Scope of application

The Bank is a subsidiary of Ancoria Investments Plc, which is incorporated in Cyprus and holds 100% of the Bank's issued share capital. Ancoria Investments Plc is owned by several legal entities as well as natural persons, and has no other significant activity, assets or liabilities other than its holding in the Bank.

Given the above, the accounts of Ancoria Bank Limited are prepared on a solo basis. There is no difference in the basis of preparation for accounting purposes with the basis used for prudential purposes.

² Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (<https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-materiality-proprietary-and-confidentiality-and-on-disclosure-frequency>)

2. Governance and Risk Management

Risks faced by financial institutions can be summarised to the following main categories: credit risk, market risk, liquidity risk and operational risk. The Bank sets policies and procedures in order to mitigate, control or accept these risks according to the Bank’s risk appetite. Such policies, procedures and controls are reviewed on a frequent basis in order to account for changes in regulation, external and internal conditions, or where weaknesses are identified.

2.1 Risk Governance

The Board of Directors has the ultimate responsibility for internal governance and the Bank’s risk appetite at all times. It defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Bank.

The following graph shows the management and board committees formed by the Bank taking into consideration its size and complexity in order assists the Board of Directors in fulfilling its responsibilities.

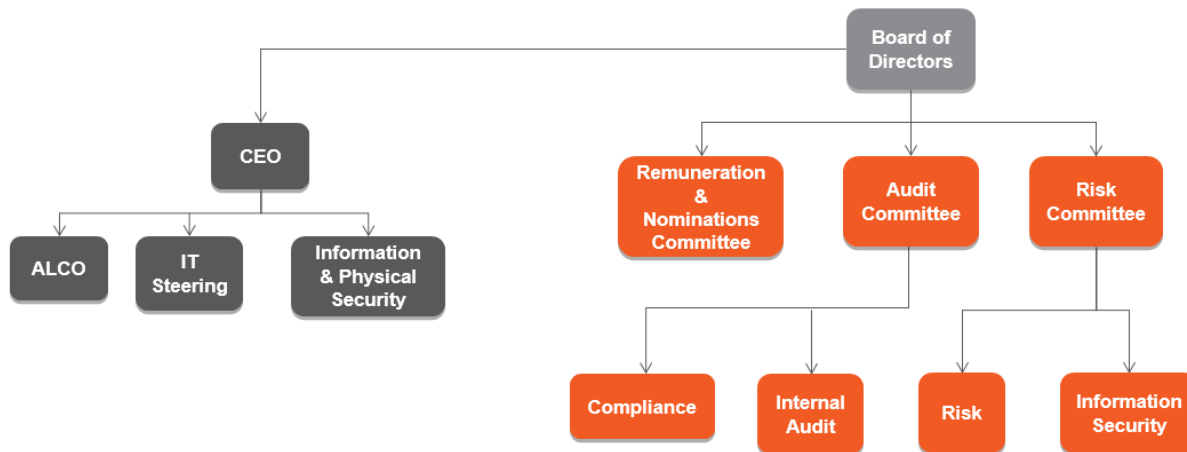


Figure 1: Risk Governance

2.2 Board of Directors

The following table shows the number of directorships the directors of the board held, including the Bank’s in 2016. Positions in the Boards of the same group are regarded as one position. Positions in the Boards of organisations that are not engaged in profit-making activities are not presented in the table below. Directorships as at 31 December 2016 shown in the table below includes retired or resigned Directors who retired or resigned during the year 2016.

Name	Position held with Ancoria Bank	Directorships – Executive	Directorships – Non-Executive
Martin Schenk	Chairman	-	1
Charalambos Panayiotou	Vice-Chairman	1	3
Charidemos Theocharides	Non-executive Director Senior Independent Director	1	1
Odysseas Christodoulou	Non-executive Director	1	2
Sievert Larsson	Non-executive Director	-	3
Athena Papadopoulou	Non-executive Director	-	1
Stelios Thrasyvoulou	Non-executive Director (resigned on 29 th November 2016)	1	1
Ioannis Loizou	Executive Director	1	2
Evgenia Christodoulou	Executive Director	1	2

Table 1: Ancoria Bank's Board of Directors

2.3 Board of Directors Declaration

The Board of Directors declaration on the adequacy of risk management arrangements can be found in Annex I of this document.

2.4 Board Committees

The Bank has established the following Board Committees:

- Audit Committee:** During 2016 the Committee has met 5 times. The Committee's duties and responsibilities include:
 - The monitoring and assessment, on an annual basis, of the adequacy and effectiveness of internal control and information systems, based on reports from the internal audit function and the observations and comments of external auditors and competent supervisory authorities and subsequently the submission of proposals to the Board of Directors for addressing any weakness which have been identified;
 - The monitoring of the financial reporting process and the integrity, accuracy and reliability of the Bank's financial statements and any formal announcements relating to the Bank's financial performance;
 - The submission of proposals to the Board of Directors on the appointment, compensation, terms of engagement and substitution or rotation of the approved auditor and other external auditors;
 - The assessment and monitoring of the independence adequacy and effectiveness of internal audit function;
 - Advising the Board of Directors, drawing on the work of the compliance function, on the adequacy and effectiveness of the framework for business conduct;
 - Advising the Board of Directors, drawing on the work of the compliance function and external auditors, on the adequacy and effectiveness of the compliance framework;
 - The assessment and monitoring of the independence, adequacy and effectiveness of the compliance function;

- The submission to the Board of Directors of recommendations for the appointment or removal of the head of the internal audit function and the compliance function;
- The review and approval of the annual audit plan of the internal audit function and the compliance programme of the compliance function;
- The oversight that Senior Management takes the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by external auditors, the internal audit and the compliance functions and supervisory authorities;
- The monitoring of the establishment of accounting policies and practices;

2. Remunerations and Nominations Committee: During 2016 the Committee has met 3 times. The Committee's duties and responsibilities include:

- The preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Bank and which are to be taken by the Board of Directors.
- Takes into account the long-term interest of shareholders, investors and other stakeholders in the Bank and the public interest and ensure that:
 - a. These are closely linked with the Bank's business objectives and strategies;
 - b. These are in line with the CBC Directive;
 - c. Non-executive members are not included in the beneficiaries of performance related remunerations.
- Identifying and recommending , for the approval of the Board of Directors or for approval of the general meeting, candidates to fill Board of Directors vacancies, evaluating the balance of knowledge, skills, diversity and experience of the Board of Directors and preparing a description of the roles and capabilities for a particular appointment and assessing the time commitment expected;

The Committee decides on a target for the representation of the underrepresented gender in the Board of Directors and prepares a policy on how to increase the number of the underrepresented gender in the Board of Directors in order to meet that target; the target, policy and its implementation are made public.

3. Risk Committee: During 2016 the Committee has met 4 times. The Committee's duties and responsibilities include:

- Advises the Board of Directors:
 - a. on the Bank's overall current and future risk appetite and strategy taking into account the requirements of relevant CBC Directives, the Bank's financial and risk profile and the capacity of the institution to manage and control risk
 - b. on the adequacy and effectiveness of the risk management framework, based on the input of the audit committee, risk management function and external auditors
 - c. on the adequacy and effectiveness of the information security framework, based on the input of the audit committee, information security manager and external auditors
 - d. to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner

- i. to ensure the adequate protection of the institution's confidential and proprietary information
 - ii. on the adequacy of provisions and effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Bank
 - iii. on the adequacy and robustness of information and communication systems
- Assists the Board of Directors in overseeing the effective implementation of the risk strategy by senior management including the management and mitigation of material exposures and the identification and escalation of breaches in risk limits in a timely manner
 - Reviews whether prices of liabilities and assets offered to clients take into account in full the institution's business model and risk strategy
 - Examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood of timing of earnings
 - Submits to the Board of Directors proposals and recommendations for corrective action, whenever weaknesses are identified in implementing the risk strategy
 - Assesses and monitors the independence, adequacy and effectiveness of the risk management and information security functions
 - Ensures that risk parameters and risk models developed and used are subject to periodic independent validation

2.5 Information flow to the Board of Directors

Information of risk matters to the Board of Directors is done through the Board of Directors Committees, through meetings with the heads of control functions and the following reports:

No.	Report Name	Report Owner	Report Recipient	Frequency
1	ALCO Risk Report	RMF	ALCO/RC	Monthly
2	Quarterly Risk Management Report	RMF	RC	Quarterly
3	Quarterly Information Security Report	ISF	RC	Quarterly
4	Annual Risk Management Report	RMF	RC/Board of Directors/CBC	Annually
5	Annual Information Security Report	ISF	RC/Board of Directors/CBC	Annually
6	Internal Capital Adequacy Process (ICAAP)	RMF	RC/Board of Directors/CBC	Annually
7	Internal Liquidity Adequacy Process (ILAAP)	RMF	RC/Board of Directors/CBC	Annually
8	Recovery Plan	RMF	RC/Board of Directors/CBC	Annually
9	Review of Policies	Depending on policy owner	RC or AC /Board of Directors/CBC	Annually

Table 2: Reports supporting information flow to Board of Directors

2.6 Recruitment policy regarding members of Board of Directors selection

For the recruitment and selection of members of the Board of Directors of the Bank, the Remunerations and Nominations Committee identifies, evaluates and recommends for approval to the Board candidates to be appointed as Directors. The candidates are assessed with regards to their ethos, integrity and honesty; their professional experiences and academic backgrounds in order to enhance the collective knowledge and experience of the Board; and the availability on their behalf to commit the necessary time and effort to fulfil their responsibilities.

The Bank is in the process of drafting a written policy in relation to the selection, appointment, and succession of members of the Board.

2.7 Diversity policy regarding Board of Directors members

Ancoria Bank, as regards to the Board's composition, embraces diversity and strongly believes that it brings benefits for the customers, bank business and staff. Different perspectives help to ensure that the bank is better equipped to make sound and prudent decisions and also meet the demands of its customer base.

The Remunerations and Nominations Committee of the Board of Directors of the Bank engages a broad set of qualities and competences when nominating for appointment or re-appointment, members of the Board that includes gender, academic background, and professional experience.

3. Risk Management Framework

3.1 Overview

The Bank has an independent risk management function (the “RMF”) headed by the risk manager. The RMF is responsible for monitoring all risks of the Bank. The head of the RMF reports directly to the Board of Directors Risk Committee. Information Security is a separate control function that reports directly to the Board of Directors Risk Committee. In view of their close relationship, control functions communicate any relevant findings between them to serve as a feedback mechanism for improving internal policies and procedures and increase awareness of enterprise risks.

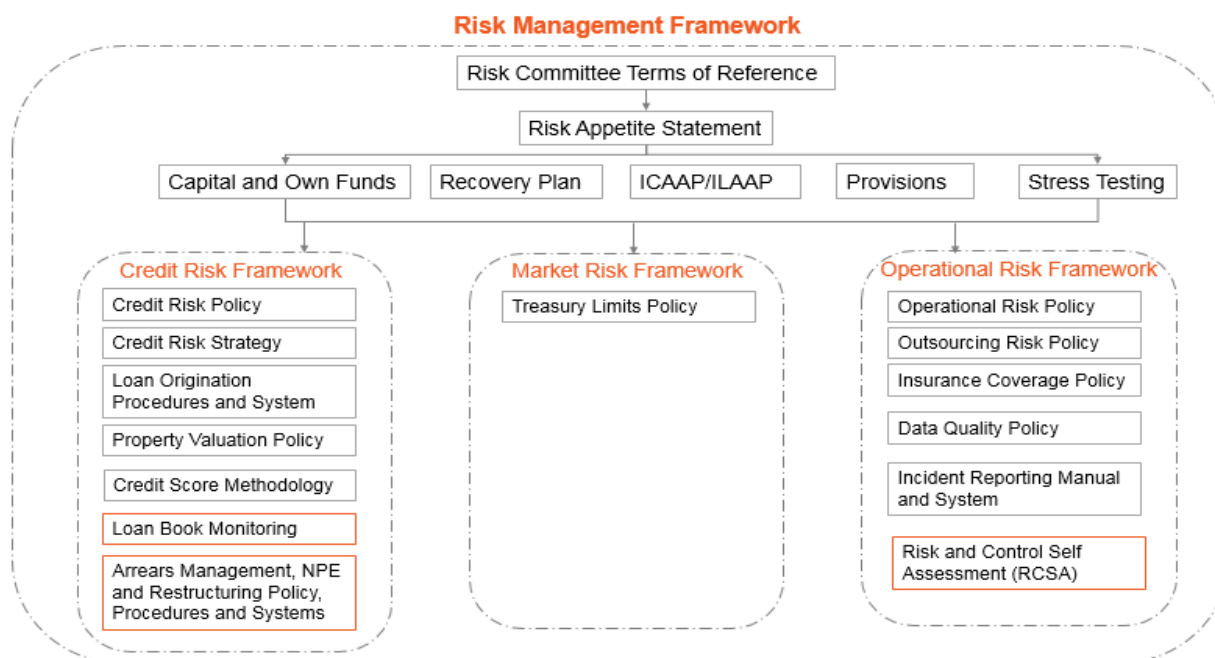


Figure 2: Risk Management Framework

Figure 2 above shows the architecture of the RMF’s policies and procedures. Sections indicated in orange boxes are under development. During 2016 and in the first quarter of 2017 the following policies were approved/reviewed by the Board of Directors:

1. Risk Appetite Statement
2. Arrears Management Policy
3. Stress Testing Policy
4. Arrears Management Strategy
5. Recovery Plan
6. ICAAP/ILAAP report
7. Insurance Coverage Policy
8. Credit Risk Management Policy
9. Data Quality Policy
10. Provisioning Policy
11. Outsourcing Risk Management Policy
12. Operational Risk Management Policy

3.2 Risk Appetite Statement

The Bank's Risk Appetite Statement describes the quantum, types and level of risk that the Bank, through its Board of Directors, is prepared to accept in order to achieve the Bank's objectives.

The Risk Appetite Statement translates the Bank's strategy into measurable short to medium term targets and thresholds across material risk categories and enables intra-year performance monitoring and management.

The formulation of the Bank's risk appetite considers the following:

1. The financial profile and position of the Bank
2. The Bank's capacity to manage and control risk
3. The Bank's strategic, capital and financial plans as well as compensation programs
4. The requirements of the Central Bank of Cyprus (CBC)' Governance and Management Directive of 2014
5. The Central Bank's conditional requirements for license to operate in the Republic of Cyprus
6. Capital and other regulatory requirements applicable

This can be expressed both with qualitative statements describing the risks undertaken and the rationale behind them, as well as using various quantitative techniques. The main aim is to ensure that:

1. Business activity is guided, controlled and aligned to the risk appetite statement
2. Specific business actions necessary to mitigate risk are identified early and acted upon promptly
3. Key assumptions underpinning the risk appetite are continuously monitored and adjusted accordingly

There are two main risk categories impacting upon the Bank's objectives:

1. **External:** Includes economic, political, environmental, regulatory and industry specific risks
2. **Company specific:** Includes capital and earnings, funding and liquidity as well as other operational risks

The Bank whilst appreciating the importance of environment specific risks, these lay outside its direct control, hence it focuses on mitigating company specific risks in order to achieve its medium to long term target.

As a summary of the Bank's Risk Appetite Statement, the Board of Directors defines its Risk Capacity as:

1. **Capital:** The Bank aims to maintain its reportable Total Capital to a minimum of 13%
2. **Liquidity:** The Bank aims to maintain its Liquidity Coverage Ratio to a minimum of 120% and its Net Stable Funding Ratio to a minimum of 100%
3. **Leverage:** The Bank aims to maintain its Leverage Ratio to a minimum of 6%

3.3 Risk Management Function

The Bank's RMF is independent of the business and support lines it monitors and controls, reports directly to the Board of Directors through its Risk Committee and is responsible for the following:

1. Identification, measurement, management and reporting of all material risks;
2. Drafting of policies and procedures according to the Bank's strategy and risk appetite statement;
3. Communicate occasions of misalignment with risk strategy and risk appetite statement;
4. Performing bank-wide stress testing and sensitivity analyses;
5. Recommending remedial actions where and when risk limits are breached.

3.4 Internal Capital and Liquidity Assessment Process (ICAAP/ILAAP)

The Bank has prepared an ICAAP/ILAAP report as requested by the CBC with reference date 30/6/2016. The report structure has been prepared in alignment with the European Banking Authority's (the "EBA") Guidelines on Common Procedures and Methodologies for the Supervisory Review and Evaluation Process (SREP).

The purpose of the report was dual:

1. To provide an overview of the current controls and procedures the Bank has in place
2. To assess capital and liquidity adequacy under stressed scenarios

ICAAP/ILAAP is an integral part of the Bank's risk management framework which provides an overview of the Bank's standing regarding its overall risk-profile and to highlight potential weaknesses. The report includes a self-assessed score to facilitate the monitoring of the Bank's overall progress.

4. Own Funds

The Bank's regulatory capital is calculated in accordance with the provisions of the EU Regulation 575/2013.

Item	€'000
Own Funds (Tier 1)	
Share Capital	101
Share Premium	49,900
Reserves	(8,730)
Intangible Assets	(1,286)
Common Equity Tier 1	39,919
Total Tier 1 Capital	39,919
Additional Own Funds (Tier 2)	67
Total Tier 2	67
Total Own Funds	39,985
Common Equity Tier 1 Ratio	188.40%
Total Capital Ratio	188.72%

Table 3: Own funds disclosure

The Bank's regulatory capital is composed entirely by ordinary shares. There are no restrictions on the transfer of the Bank's ordinary shares other than the provisions of the Bank's Articles of Association and other than the Banking Law of Cyprus which requires Central Bank of Cyprus approval prior to the acquiring of shares of the Bank in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

Own funds is the result of regulatory capital after the deduction of retained earnings and other intangibles. Other intangibles refer mainly to software programs.

As at 31 December 2016, the Bank had a total issued share capital of 101,000 ordinary shares of nominal value of €1 each, at a total premium of €49,900,000. There was no change in the authorised or issued share capital of the Bank during 2016.

The share premium account is not available for distribution in the form of a dividend.

The Bank is comfortably above regulatory capital ratio minima. Common Equity Tier 1 minimum is set at 4.5% and Tier 1 ratio minimum at 6%. Countercyclical buffer at reporting date is set to 0% as communicated by the Central Bank of Cyprus.

5. Capital Requirements

The Bank follows the Standardised Approach for the calculation of capital requirements for credit risk and market risk and the Basic Indicator Approach for operational risk.

Pillar 1 capital requirement at year end 2016 was:

Risk Type (€'000s)	Pillar 1 Capital
Credit	19,633
Market	-
Operational	1,555
Credit Valuation Adjustment (CVA)	-
Total Minimum Capital Requirement	21,188

Table 4: Pillar 1 minimum capital requirements per risk type

5.1 Credit Risk Management

5.1.1 Credit Risk Definition

Credit risk is defined as the risk of losses occurring as a result of counterparties defaulting on their contractual obligations. Credit risk may arise from both the Bank's lending book and treasury placements.

5.1.2 Credit Risk Management Procedures

The Bank's Risk Management Function (the "RMF") is responsible for setting, with the collaboration of the Organisations and Methods (the "O&M") department, appropriate procedures for the management of credit risk.

The RMF informs and advises business units with respect to the credit risks that may arise and uses systems available for the measuring and monitoring of credit risk. The function also contributes to ad-hoc seminars and training of personnel when relevant and appropriate and where findings prevail.

The RMF monitors the performance of the Bank's loan book, Treasury placements and limits set by ALCO or the Board of Directors through the Risk Committee.

Regarding the Bank's loan book, the RMF has internally developed credit score models for individuals and businesses.

Regarding its lending book, the Bank's tangible collaterals consist mainly from mortgages on immovable property and at a lesser extent cash. The Bank also accepts floating charge, personal and corporate guarantees and life insurances but does not assign a realisable value to these.

More information is available in the risk management section of the Bank's Financial Statements 2016.

5.1.3 Application of Standardised Approach

The Pillar 1 minimum capital requirement is calculated by exposure using a Minimum Capital Adequacy Ratio of 8%. The Table below summarises risk-weighted amounts and minimum capital requirements per asset class, based on the Standardised Approach.

Asset Class	Risk Weighted Amount (€'000s)	Minimum Capital Requirement (€'000s)
Central governments or central banks	-	-
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	1,395	112
Corporates	2,585	207
Retail	3,945	316
Secured by mortgages on immovable property	7,469	598
Exposures in default	-	-
Items associated with particular high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investment undertakings (CIU)	-	-
Equity	-	-
Other items	4,239	339
Total	19,633	1,571

Table 5: Risk weighted amounts per asset class using Standardised Approach

5.1.4 Nominated External Credit Assessment Institutions for the application of the Standardised Approach

The Bank recognises the following External Credit Assessment Institutions (ECAI) for the purposes of applying the Standardised Approach: Moody's Investor Service, Standard and Poor's Rating Services and Fitch Ratings.

The Bank adopts the three ratings approach as described in Article 138 of EU Regulation 575/2013 for all asset classes.

The Bank complies with the standard assignment of external ratings of each nominated ECAs with the credit quality steps, as per the table below.

Credit Quality Step	Moody's Ratings	S&P Ratings	Fitch Ratings
1	Aaa to Aa3	AAA to AA-	AAA to AA-
2	A1 to A3	A+ to A-	A+ to A-
3	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
4	Ba1 to Ba3	BB+ to BB-	BB+ to BB-
5	B1 to B3	B+ to B-	B+ to B-
6	Caa1 and below	CCC+ and below	CCC+ and below

Table 6: Standard assignment of external ratings with credit quality steps

5.1.5 Risk of Impairment

The Bank does not currently have any non-performing facilities and no impaired securities. Any allowances shown in the table below reflect the provisions on performing loan portfolio. A number of loans may have recorded a small number of days in arrears mainly due to delay of payment clearing. The Bank closely monitors loans regarding payments due to minimise such occurrences. The Risk Management Function acts as a second layer of defence for loans in arrears and verifies with business units the progress of payment.

The Bank has implemented provision methodology for loan loss provisions in alignment with IAS 39 but with a more conservative approach as an intermediary state towards IFRS 9 compliance.

5.1.6 Credit risk disclosures

	Gross carrying values of		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
Loans	-	24,666,415	66,580	24,599,835
Debt securities	-	8,701,047	-	8,701,047
Off-balance sheet exposures	-	5,389,752	-	5,389,752
Total	-	38,757,214	66,580	38,690,634

Table 7: Credit quality of assets

Defaulted loans and debt securities at the end of the previous reporting period	-
Loans and debt securities that have defaulted since the last reporting period	-
Returned to non-defaulted status	-
Amounts written off	-
Other changes	-
Defaulted loans and debt securities at the end of the reporting period	-

Table 8: Changes in stock of defaulted loans and debt securities

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivative, of which: secured amount
Loans	254,790	24,411,625	23,520,858	-	-	-	-
Debt securities	8,701,047	-	-	-	-	-	-
Total	8,955,837	24,411,625	23,520,858	-	-	-	-
Of which defaulted	-	-	-	-	-	-	-

Table 9: Credit risk mitigation techniques overview

Note that only tangible collaterals are accounted for secured amount in Table 9.

(€'000s) unless stated as percentage	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Central governments or central banks	38,762	-	38,762	-	-	-
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-
Institutions	6,294	-	6,294	-	1,395	22.16%
Corporates	2,880	495	2,880	41	2,585	89.76%
Retail	5,577	1,276	4,624	1,244	3,945	70.74%
Secured by mortgages on immovable property	19,726	3,619	19,726	3,620	7,469	37.86%
Exposures in default	-	-	-	-	-	-
Items associated with particular high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings (CIU)	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	6,360	-	6,360	-	4,239	66.65%
Total	79,599	5,390	78,646	4,905	19,633	24.66%

Table 10: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

Risk-weight Asset class	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total (post CCF and CRM)
Central governments or central banks	38,762	-	-	-	-	-	-	-	-	38,762
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	5,935	-	303	-	56	-	-	6,294
Corporates	-	-	-	-	591	-	2,290	-	-	2,880
Retail	-	-	-	-	-	5,577	-	-	-	5,577
Secured by mortgages on immovable property	-	-	-	15,548	4,178	-	-	-	-	19,726
Exposures in default	-	-	-	-	-	-	-	-	-	-
Items associated with particular high risk	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings (CIU)	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Other items	2,041	-	100	-	-	-	4,219	-	-	6,360
Total	40,803	-	6,035	16,788	5,123	8,215	6,541	-	-	79,599

Table 11: Standardised approach – exposures by asset classes and risk weights

5.2 Market Risk Management

5.2.1 Definition of Market Risk

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. Adverse movements in market prices may be caused by changes in interest rates, market prices and foreign exchange changes. Therefore market risk can be analysed into the following risk types:

Interest rate risk: The risk that interest rates and their implied volatility will change

Price risk: The risk associated with fluctuations in the market prices

Foreign exchange risk: The risk of fluctuating foreign exchange rates and their implied volatility

5.2.2 Market Risk Monitoring

The Bank's Treasury department is responsible for the day-to-day management of market risks within the framework of activities and limits approved by ALCO. The Bank's Risk Management Function is responsible for monitoring the implementation of relevant frameworks by the Treasury and any breaches to limits set.

The Bank's Treasury operates two portfolios: a held-to-maturity ("HTM") and an available-for-sale ("AFS") portfolio. The held-to-maturity portfolio is restricted to fixed income investments with the intention to hold until maturity and for the purpose of ensuring that regulatory liquidity requirements are met and acts as capital preservation. The AFS portfolio is also restricted to fixed income investments although requirements may deviate from regulatory criteria for liquidity estimation purposes with the purpose of enhancing the Bank's non-interest income.

The Bank has set a limits structure for all Treasury placements taking into account credit ratings and tenor of securities as well as concentration by counterparty and country of exposure.

More information is available in the risk management section of the Bank's Financial Statements 2016.

5.2.3 Foreign currency exposure

The Bank has limited exposure to foreign currency risk as demonstrated in the Table below.

Currency	Spot Position		Forward Position		Net Open Foreign Currency Position	
	Assets	Liabilities	Assets	Liabilities	In foreign currency	In EURO
	('000s)	('000s)	('000s)	('000s)	('000s)	(€'000s)
GBP	179	177	-	-	1	2
USD	136	-	-	-	136	129
JPY	375	-	-	-	375	3
CHF	5	-	-	-	5	5
SEK	285	-	-	-	285	30
Total of net Long positions						166
Total of net Short positions						0
Overall net foreign exchange position						166

Table 12: Foreign currency exposure

5.2.4 Interest Rate Risk

Interest rate risk in the banking book is assessed through the ICAAP/ILAAP on an annual basis. The Bank has a relatively low interest rate sensitivity to the economic cycle and to earnings given the composition of its balance sheet, provided the relatively small securities portfolio with short duration and the majority of loans provided being floating rate loans. Basis risk however may arise from the divergence between Euribor and Bank Base Rate (the "BBR") rates, which constitute the main bases used in the Bank's loan book, as have in the past.

The following table indicates the impact on the Bank's economic value of a change of ± 100 basis points in interest rates in Euro and other currencies.

Change (€000)	Euro	Other currencies	Total
-100 basis points	(478)	(2)	(480)
+100 basis points	478	2	480

Table 13: Interest rate sensitivity on Bank's economic value

5.3 Liquidity Risk Management

5.3.1 Definition of Liquidity Risk

The Bank defines liquidity risk as the risk of the Bank over a specific horizon not being able to settle obligations with immediacy. This risk includes the situation of raising funds at a higher cost or sell assets at a discount in order to be able to satisfy its obligations.

5.3.2 Liquidity Risk Monitoring

The Bank's main funding sources are shareholder capital and customer deposits. In order to ensure that the Bank has a stable source of funds through deposits, the Bank is focusing on establishing a well-diversified deposit base through its pricing strategy.

The Bank has been enabled as an ECB eligible counterparty for participating in ECB open market operations and standing facilities, including the mobilisation of securities from the Bank's custodian to the CBC.

Policies regarding liquidity risk are approved by the Board of Directors. Liquidity risk related frameworks are reviewed and approved by ALCO in accordance to relevant policies approved by the Board of Directors and within the terms of reference of ALCO. All ALCO materials are distributed to the Board of Directors through its Risk Committee.

The Bank's Treasury department is responsible for the day-to-day management of liquidity risk, including compliance with regulatory and internal liquidity risk limits. The Risk Management Function monitors liquidity on a weekly basis. Liquidity updates are communicated through ALCO meetings which take place at least once a month. Such updates are also communicated to the Board of Directors through its Risk Committee.

More information is available in the risk management section of the Bank's Financial Statements 2016.

5.3.3 Regulatory ratios

The following table demonstrate compliance with local (Prudential Liquidity Return) and European (Liquidity Coverage Ratio and Net Stable Funding Ratio) regulatory liquidity ratios.

The Bank complies with all regulatory ratios and is significantly above regulatory minimums. The majority of the Bank's LCR eligible are classified as Level 1 QHLA.

	Minimum Regulatory Ratios	Ratio
EUR Liquidity Mismatch Ratio: 0-7 days	-10%	52.8%
EUR Liquidity Mismatch Ratio: 0-30 days	-25%	51.8%
EUR Stock Liquidity Ratio	20%	123.8%
Foreign Currency Stock Liquidity Ratio	70%	181.3%

Table 14: Prudential Liquidity Return

	Value (€'000s) / Percentage
Liquidity buffer	42,112
Net liquidity outflow	9,768
Liquidity coverage ratio (%)	431%
Numerator calculations	
L1 excl. EHQCB "adjusted amount before cap application"	40,803
L2A "adjusted amount after cap application"	258
L2B "adjusted amount after cap application"	1,051
Liquidity buffer	42,112
Denominator calculations	
Total Outflows	15,710
Reduction for inflows subject to 75% Cap	5,942
Net liquidity outflow	9,768

Table 15: Liquidity Coverage Ratio breakdown

Available Stable Funding Amounts			
Category	ASF Factor	Actual (€'000s)	With Haircut (€'000s)
Tier 1 Capital Instruments	100%	39,918	39,918
Stable Retail Deposits up to 1 year	95%	5,926	5,629
Less Stable Retail Deposits up to 1 year	90%	27,816	25,034
All other categories of deposits up to 1 year	50%	3,744	1,872
Total			72,453
Required Stable Funding Amounts			
Category	RSF Factor	Actual	With Haircut
All other Level 1 assets	5%	6,005	300
All Level 2A assets	15%	304	46
All Level 2B assets	50%	2,087	1,044
All performing loans under 1 year	85%	5,823	2,912
All performing loans over 1 year	100%	24,105	20,489
Total			24,790
NSFR Ratio			292%

Table 16: Net Stable Funding Ratio breakdown

5.4 Operational Risk Management

5.4.1 Definition of Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, conduct and reputational risk.

5.4.2 Three lines of defence

Operational risk can impact every aspect of the Bank's business and can ultimately cause significant losses for its customers, employees and shareholders. The Bank pays particular attention to operational risk management practices into all areas of the business process.

The Bank uses a "three lines of defence" model for the management of operational risk:

First line of defence: Involves all employees, which have been adequately trained to look-out for and report incidents where operational risk is present as well as situations where operational risk could have occurred but was prevented.

Second line of defence: Involves the Bank's Risk Management Function (the "RMF"), including the Information Security Function. The RMF is responsible to monitor operational risk and the effectiveness and integrity of the operational risk management framework and report findings and concerns to the Board of Directors Risk Committee, which in turn communicates such findings to the Board of Directors. The Compliance Function provides an oversight of compliance risk in relevant business units and pursue monitoring and assessing responsibilities.

Third line of defence: Involves independent confirmation over the integrity and effectiveness of the operational risk management framework through internal and external auditor assessments.

More information is available in the risk management section of the Bank's Financial Statements 2016.

5.4.3 Procedures, Systems and Mitigating Techniques

In order for the Bank to have an efficient operational risk management framework and minimise operational loss events at the greatest extent possible the Bank takes three main approaches:

1. To ensure that appropriate procedures are in place;
2. Appropriate systems are available for the reporting and monitoring of incidents; and
3. That corporate insurances are in place according to the complexity of the Bank's operations.

The Bank has established a procedure on how circulars, forms, documents and procedures are established and their review process. Procedures are reviewed by the Bank's control functions prior to publication. Where appropriate, training is scheduled for new or reviewed procedures. The Bank has established a conflicts of interest policy, the principles of which to be incorporated into the Bank's processes and procedures so that to ensure the identification, prevention, management and disclosure of conflicts of interest, including those that may result to benefit the Bank and/or damage the interest of its customers.

The Bank has established an incident reporting system to enable the reporting and monitoring of bank-wide incidents. Training has been performed to all Bank employees. The establishment of such system is of crucial importance for the Bank as it enables and promotes a transparent corporate culture, truthful representation of the frequency and severity of incident occurrence, minimise the impact of a realised risk or incident and improve the efficiency of existing procedures. No significant operational losses have occurred for the year under review.

The Bank currently has in place insurance policies required by law and additional coverages for internal and external fraud events, conduct risk and other events.

The Bank performs an ICAAP report once a year, which amongst others involves assessment and stress testing of operational risk. The Bank's ICAAP report for 2016 has identified strategy (business model) risk and operational risk as of higher risk than other risk categories given the Bank's start-up status an operational environment. The Bank's Board of Directors and senior management is aware of this and perform frequent assessments of the business model as a mitigating factor as well as focusing on the improvement of processes and procedures.

5.4.4 Capital Requirements

Operational risk capital requirement under the Basic Indicator Method is calculated as 15% of the three-year average of the Relevant Indicator as defined in Article 316 of the European Regulation 575/2013. As the Bank has less than 3 years in operations, budgeted figures are used where appropriate.

Operational Risk	Minimum Capital Requirement (€'000s)
Basic Indicator Method	1,555
Total Required Capital	1,555

Table 17: Operational risk total capital requirements

6. Remuneration policy and practices

The Bank has established a Remuneration Policy with the objective to provide an effective framework for determining, implementing, overseeing and amending, whenever required, the remuneration, both fixed and variable, of all Bank employees. The Policy defines important relevant terminology, outlines the responsibilities of all relevant stakeholders and identifies the principles to be followed by the Bank, ensuring that the Policy is to be at all times aligned with the risk appetite, values and long-term interest of the institution. The main principles of the policy are outlined below:

1. Covers all staff, including all Bank employees and all members of the management body.
2. Is consistent with and promotes sound and effective risk management and does not encourage risk taking that exceeds the level of tolerated risk of the Bank.
3. Is in line with the business strategy, objectives, values and long-term interests of the Bank, and incorporates measures to avoid conflicts of interest.
4. Is designed and amended with the involvement of the Board of Directors and its relevant Committees, internal control functions and corporate functions. The main roles and responsibilities fall with the Bank's Remuneration and Nominations Committee and the Board of Directors. The former, among others, is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Bank and which are to be taken by the Board of Directors. It provides support and advice to the Board on the design of the Policy, monitors whether the existing Policy is up-to-date and submits proposals to the Board for amendments, if required. The latter, among others, adopts and periodically reviews the general principles of the Policy and ensures that the Policy and practices are consistent with the risk appetite of the Bank, prevent conflicts of interest and promote sound and effective risk management. Detailed information on the roles and responsibilities of the two bodies are outlined in Section 2.4 of this document.
5. Undergoes review at least on an annual basis for compliance with relevant policies and procedures.
6. Identifies and periodically updates a list of "identified staff" (staff whose professional activities have a material impact on the Bank's risk profile, in accordance with the criteria set out in the Commission Delegated Regulation (EU) 604/2014).
7. Ensures that the necessary disclosures are made to shareholders.
8. Distinguishes between two categories of remuneration:
 - i. **Basic Fixed Remuneration:** primarily reflects the relevant professional experience and organisational responsibility of a staff member, as set out in the relevant job description as part of the terms of employment. Salary reviews, take into consideration the relevant professional experience and organisational responsibility of the staff member, as well as the individual's performance evaluation results. Fixed remuneration of staff, excluding non-executive members of the Board, is reviewed on an annual basis; with the first such review to take place on the 31st of December of the year following the year of employment
 - ii. **Variable Remuneration:** reflects a sustainable and risk-adjusted performance, as well as performance in excess of that required to fulfil a staff member's job description as part of the terms of employment. The Bank ensures that the total variable remuneration does not

limit the ability of the Bank to strengthen its capital base. The policy provides a comprehensive and effective framework for performance measurement, risk adjustment and the linkages of performance to reward.

9. Determines a ratio between fixed and variable components of total remuneration, whereby the fixed component represents a sufficiently high proportion of the total remuneration. Allowing the Bank to have a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component. Specifically, the variable component shall not exceed 50% of the fixed component of the total remuneration for each individual member of staff. The Board may approve a higher maximum level, which shall not exceed 100% of the fixed component of the total remuneration for each individual.
10. Determines additional principles for identified staff, including among others, the following:
 - i. Assessment of performance is set in a multi-year framework
 - ii. A discount rate to a maximum of 25% of total variable remuneration may be applied, provided it is paid in instruments that are deferred for a period of not less than five years
 - iii. Deferral of at least 40% of variable remuneration over a period which is not less than three (3) to five (5) years and shall vest no faster than on a pro-rata basis.
 - iv. Deferral of at least 60% of variable remuneration in case that the amount to be awarded is particularly high.
 - v. Payment or vesting of variable remuneration, including the deferred portion, only if it is sustainable according to the financial situation of the Bank as a whole, and justified on the basis of the performance of the Bank, the business unit/department and the individual concerned. In this context, the total variable remuneration is to be considerably contracted, where subdued or negative financial performance of the Bank occurs, taking into account both current remuneration and reductions in pay outs of amounts previously earned, including through malus or clawback arrangements. Up to 100% of total variable remuneration may be subject to malus or clawback arrangements, if the individual has participated in or was responsible for conduct which resulted in significant losses to the Bank and/or failed to meet appropriate standards of fitness and propriety.

Instruments are not currently introduced and severance payments have not been awarded during 2016. The Bank does not have any employees which have total remuneration over EUR1 million.

Identified staff <i>in accordance with the criteria set out in the Commission Delegated Regulation (EU) 604/2014</i>	Non-Executive Members of the Board	Executive Members of the Board	Independent Control Functions	Corporate functions	Retail banking
No. of Staff (Head Count)	7	2	4	9	8
Fixed Remuneration / Fees	€ 107,459	€ 316,000	€ 146,001	€ 463,338	€ 327,019
Variable Remuneration	-	€ 5,000	-	€ 15,231	€ 3,000
Total Remuneration	€ 107,459	€ 321,000	€ 146,001	€ 478,569	€ 330,019
Outstanding Deferred Remuneration	-	-	-	-	-
New sign-on payments / severance payments	-	-	-	-	-

Table 18: Remuneration disclosures

7. Asset encumbrance

Asset encumbrance is the pledging of an asset or the entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2016	€'000	€'000	€'000	€'000
Debt securities	-	-	8,701	8,733
Other assets	-	-	70,758	70,758
Total	-	-	79,459	79,491

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2015	€'000	€'000	€'000	€'000
Debt securities	-	-	3,053	3,053
Other assets	-	-	48,780	40,780
Total	-	-	51,833	51,833

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer available to the Bank for further collateral or liquidity requirements. An asset is categorised as unencumbered if it has not been pledged against an existing liability.

As at 31 December 2016, all assets of the Bank were held free of any encumbrance.

8. Leverage

Leverage ratio is calculated as the ratio, expressed as a percentage, of the Bank's capital measure divided by the Bank's total exposure measure, as per Article 429 of the EU Regulation 575/2013. Total capital consists of entirely Tier 1 capital using the fully phased-in definition. The Bank's leverage ratio for year end 2016 is significantly above regulatory minimum of 3%.

Item	€'000
Total consolidated assets as per published financial statements	78,173
Adjustment for off-balance sheet items	2,259
Leverage ratio exposure	80,432
Tier 1 capital	39,918
Leverage ratio	49.62%

Table 19: Summary comparison of accounting assets vs leverage ratio exposure measure

Item	Leverage ratio exposure (€'000)
On-balance sheet exposures	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	79,392
Asset amounts deducted in determining Basel III Tier 1 capital	(1,219)
Total on-balance sheet exposures	78,173
Other off-balance sheet exposures	
Off-balance sheet exposure at gross notional amount	5,390
Adjustments for conversion to credit equivalent amounts	(3,131)
Off-balance sheet items	2,259
Capital and total exposures	
Tier 1 capital	39,918
Total exposures	80,432
Leverage ratio	
Basel III leverage ratio	49.62%

Table 20: Leverage ratio common disclosure template

Item	Leverage ratio exposure (€'000)
Total on-balance sheet exposures	78,173
Central governments and central banks	38,762
Institutions	6,294
Secured by mortgages on immovable properties	18,487
Of which secured by mortgages of residential properties	14,322
Retail exposures	5,396
Retail SME	1,511
Corporate	2,872
Financial	-
Non-financial	2,872
SME exposures	783
Corporate exposures other than SME	2,089
Other exposures	6,362

Table 21: On-balance sheet leverage ratio exposures

ANNEX I: Board Risk Management Declaration

The Board of Directors has the primary responsibility for internal governance and risk appetite at all times. It defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of Ancoria Bank.

The Board of Directors considers that, according to the Bank's years in operation, profile and complexity of operations it has in place adequate systems and controls and an appropriate array of assurance mechanisms, to manage risks effectively.

Annex II: Reference to CRR compliance on Pillar III

CRR Ref.	Title	Compliance Reference
General principles		
Article 431	Scope of disclosure requirements	Publication on Bank's website.
Article 432	Non-material, proprietary or confidential information	Section 1.3
Article 433	Frequency of disclosure	Section 1.2
Article 434	Means of disclosures	Section 1.2
Technical criteria on transparency and disclosure		
Article 435	Risk management objectives and policies	Section 2, 3 and Annex I
Article 436	Scope of application	Section 1.4
Article 437	Own funds	Section 4
Article 438	Capital requirements	Sections 5 and 3.4
Article 439	Exposure to counterparty credit risk	Sections 5.1.6
Article 440	Capital buffers	Section 4
Article 441	Indicators of global systemic importance	Not applicable to the Bank
Article 442	Credit risk adjustments	Sections 5.1.6
Article 443	Unencumbered assets	Section 7
Article 444	Use of ECAIs	Section 5.1.4
Article 445	Exposure to market risk	Section 5.1.4
Article 446	Operational risk	Section 5.4
Article 447	Exposures in equities not included in the trading book	Not applicable to the Bank
Article 448	Exposure to interest rate risk on positions not included in the trading book	Section 5.2.4
Article 449	Exposure to securitisation positions	Not applicable to the Bank
Article 450	Remuneration policy	Section 6
Article 451	Leverage	Section 8
Qualifying requirements for the use of particular instruments or methodologies		
Article 452	Use of the IRB Approach to credit risk	Not applicable to the Bank
Article 453	Use of credit risk mitigation techniques	Section 5.1.2
Article 454	Use of the Advanced Measurement Approaches to operational risk	Not applicable to the Bank
Article 455	Use of Internal Market Risk Models	Not applicable to the Bank

Abbreviations

AC	Audit Committee
ALCO	Assets and Liabilities Committee
CBC	Central Bank of Cyprus
CCF	Credit Conversion Factor
CRM	Credit Risk Mitigation
ISF	Information Security Function
RC	Board of Directors Risk Committee
RMF	Risk Management Function