

ANCORIA

— **BANK** —

banking redefined

PILLAR 3 DISCLOSURES 2018

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Incorporation and Principal Activity

Ancoria Bank Limited (the “Bank”) filed an application with the Central Bank of Cyprus for a banking license to enable its operation 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 began 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”).

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 computation methodology.
- Pillar 2.** Internal self-assessment and supervisory assessment of Bank-wide risk management, governance 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 2018 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. The guidelines do not change the substance of the regulatory disclosures regarding the requirements defined in Part Eight of Regulation (EU) No 575/2013 (the CRR). However, they provide guidance on these disclosures from a presentational aspect. Although the comprehensiveness of the guidance provided in the guideline has led the EBA to limit at first stage its scope of application to global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) and to any other institution opted into these guidelines on the basis of a supervisory decision, in an effort to promote transparency and ease of comparison, the Bank is consistent with the EBA guidelines in the majority of the standardised disclosure tables.

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 serves in providing additional information on the capital and risk profile of the Bank, though material disclosure is also available through the Bank’s Annual Financial Report.

Verification

Pillar 3 disclosures document is 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 through the 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 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>)

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>)

Scope of application

The Bank is a subsidiary of Ancoria Investments Plc (the “Parent”), which is incorporated in Cyprus and holds 100% of the Bank’s issued share capital. The sole activity of the Parent is the holding of the investment in the entire issued share capital of Ancoria Bank Limited. 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.

The financial statements of Ancoria Bank Limited are prepared on a solo basis, whereas the Parent prepares consolidated financial statements incorporating the financial statements of the Parent and the Bank.

There is no difference in the basis of preparation for accounting purposes with the basis used for prudential purposes.

Risk Governance

Risks faced by financial institutions can be summarised to the following main categories: credit risk, market risk, liquidity risk, operational risk and capital 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.

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 to assist the Board of Directors in fulfilling its responsibilities.

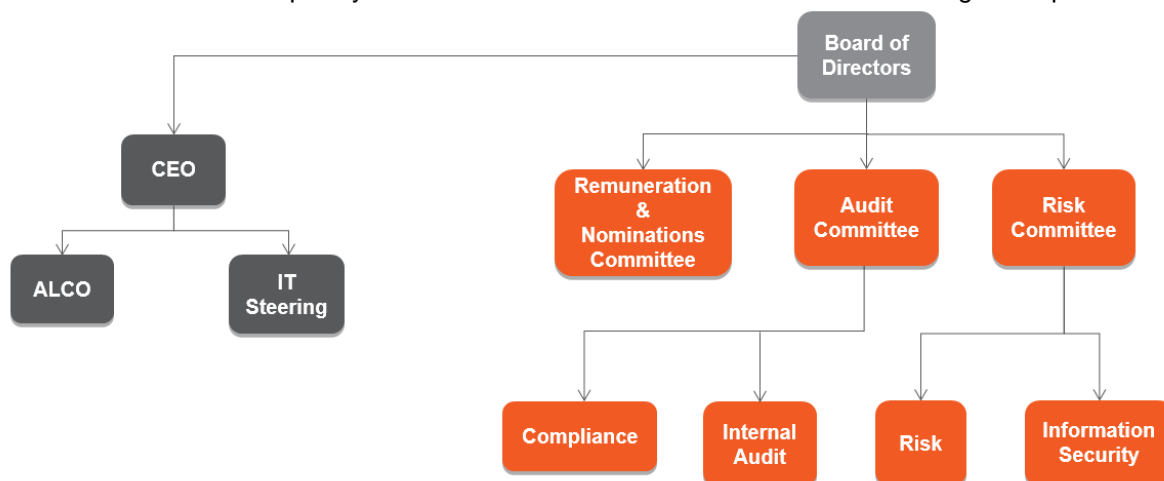


Figure 1: Governance

As shown in Figure 1 above, the Bank has four separate control functions: Compliance, Information Security, Internal Audit and Risk Management Function. Control functions report directly to the BoD and are independent from operational activities. Heads of control functions are assigned and removed by the BoD as also indicated in their role descriptions.

Control functions have direct access to the BoD to communicate any concerns and meet with their respective Board committees at least quarterly. A product approval policy, compliance policy and internal audit charter are available as approved by the BoD and updated at least annually.

Control functions have fairly adequate resources to perform their tasks given the size and complexity of the institution. The Bank makes continuous efforts in enhancing its monitoring of bank-wide risks.

The Bank has in place a new products/services development policy clearly documenting the internal processes to be followed every time a new product or service is considered to be implemented by the Bank. New products or services should be aligned with the Bank’s overall strategy and for each a feasibility study must be performed.

The Bank has fairly adequate systems to generate risk data for regulatory reporting purposes. In addition, the Bank has in place a business continuity management procedure, with identified critical functions for business continuity and disaster recovery purposes which is annually reviewed.

The Bank has in place a budget plan, a formal statement of business goals of both financial and operational nature, and plans for achieving them. In its fully detailed form, it covers a financial year ending 31 December, however, it forms part of a condensed business plan spanning usually 3-5 years ahead. It is reviewed and approved by the Board of Directors on an annual basis and its monitored monthly through ALCO.

Board of Directors

The following table shows the number of directorships the directors of the board held, including the Bank's in 2018. 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 2018 shown in the table below includes retired or resigned Directors who retired or resigned during the year 2018.

| 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 | 2 |
| Evan Gavas | Non-executive Director | 1 | 2 |
| Sievert Larsson | Non-executive Director | - | 3 |
| Athena Papadopoulou | Non-executive Director | - | 1 |
| Marios Clerides | Non-executive Director | - | 4 |
| Ioannis Loizou | Executive Director | 1 | 2 |
| Evgenia Christodoulou | Executive Director | 1 | 2 |

Table 1: Board of Directors composition and directorships

We note that Mr. Evan Gavas has resigned from his position on 27th of August 2018.

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.

Board Committees

The Bank has established the following Board Committees:

Audit Committee

During 2018 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 heads of the internal audit and compliance functions;
- 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.

Remunerations and Nominations Committee

During 2018 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 ensures that:
 - a. These are closely linked with the Bank's business objectives and strategies;
 - b. These are in line with the CBC Governance 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.

Risk Committee

During 2017 the Committee has met 5 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.

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 | Risk Appetite Statement Monitoring | RMF | ALCO/RC | Monthly |
| 3 | Quarterly Risk Management Report | RMF | RC | Quarterly |
| 4 | Quarterly Information Security Report | ISF | RC | Quarterly |
| 5 | Quarterly Internal Auditor's Report | IA | AC/BoD /CBC | Quarterly |
| 6 | Quarterly Compliance Report | CF | AC | Quarterly |
| 7 | Annual Risk Management Report | RMF | RC/BoD/CBC | Annually |
| 8 | Annual Information Security Report | ISF | RC/BoD/CBC | Annually |
| 9 | Annual Internal Auditor's Report | IA | AC/BoD/CBC | Annually |
| 10 | Annual Compliance Report | CF | AC/BoD/CBC | Annually |
| 11 | Annual MLCO Report | MLCO | AC/BoD/CBC | Annually |
| 12 | Annual AML Risk Based Approach Report | MLCO | AC/BoD/CBC | Annually |
| 13 | Internal Capital Adequacy Process (ICAAP) | RMF | RC/BoD/CBC | Annually |
| 14 | Internal Liquidity Adequacy Process (ILAAP) | RMF | RC/BoD/CBC | Annually |
| 15 | Recovery Plan | RMF | RC/BoD/CBC | Annually |
| 16 | Review of Policies | Depending on policy owner | RC or AC /BoD | Annually |

Table 2: Board of director's information flow

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 has in place a policy in relation to the selection, appointment, and succession of members of the Board.

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.

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-wide risks.

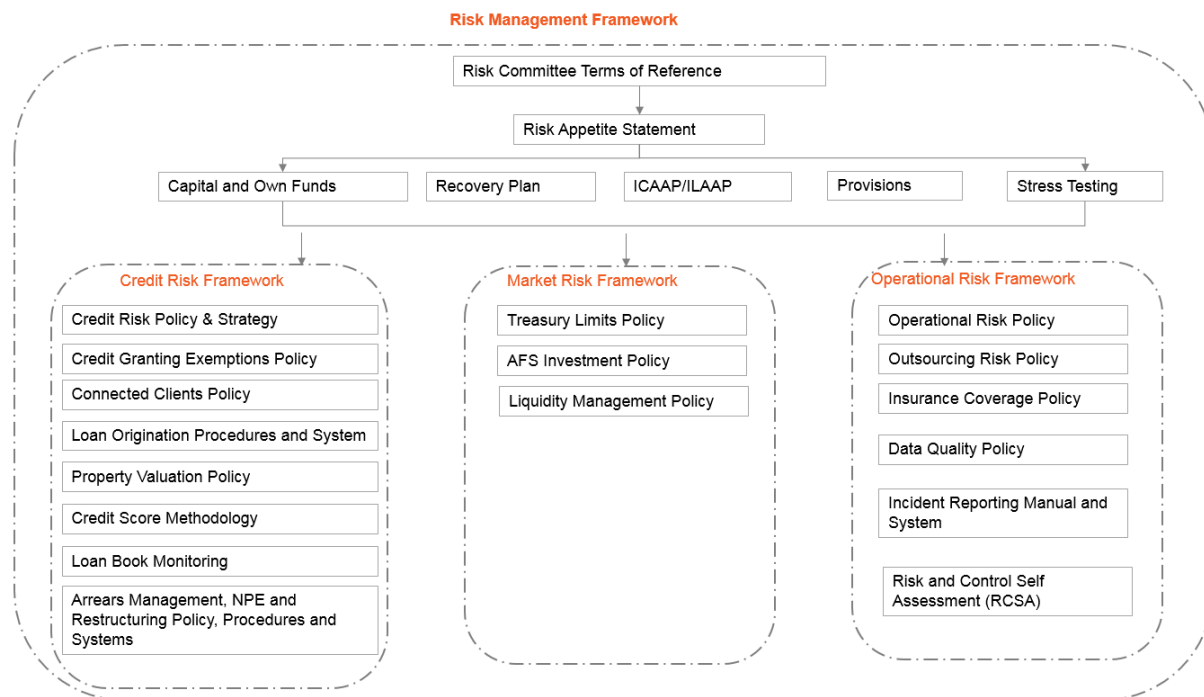


Figure 2: Risk Management Framework

Figure 2 above shows the architecture of the RMF’s policies and procedures. During 2018 and in the first quarter of 2019 the following policies and bank-wide 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. 2018 Risk Control Self-Assessment (RCSA)
8. Capital and Own Funds Policy
9. Connected Clients Policy
10. Insurance Coverage Policy
11. Credit Risk Management Policy
12. Credit Risk Strategy
13. Data Quality Policy
14. Property Valuations Policy
15. Treasury Risk Limits Policy
16. Outsourcing Risk Management Policy
17. Operational Risk Management Policy
18. Credit Granting Exemptions Policy

Liquidity Management policies are owned by the Bank’s Treasury department.

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 CBC's 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 high-level summary of the Bank's Risk Appetite Statement to serve necessary disclosures, the Board of Directors define its Risk Capacity as:

1. **Capital:** The Bank aims to maintain its reportable Total Capital to a minimum of 13% unless regulatory requirements specify higher amounts;
2. **Liquidity:** The Bank aims to maintain its Liquidity Coverage Ratio to a minimum of 100% 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%.

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.

Internal Capital and Liquidity Assessment Process (ICAAP/ILAAP)

The Bank has prepared an ICAAP/ILAAP with reference date 30/10/2018. 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 is 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 throughout the annual repetition of this exercise.

The Bank has received its first SREP communication by the CBC indicating a requirement of 4.5%, setting the minimum Total Capital Requirements, including Capital Conservation Buffer (CCB) and Countercyclical Buffer (CB), at 15%. An additional Pillar 2 Guidance of 0.5% was also communicated by the CBC. As per CBC clarification, the majority of this requirement acts as a buffer to ensure the smooth development of the Bank's business plan and the remaining of the requirement reflects the risk-profile of the Bank as also estimated through the ICAAP/ILAAP scoring methodology.

The Board of Directors is intensifying its efforts to develop the operations of the Bank in a manner consistent with the expectations of its stakeholders and regulators. As part of these efforts, amongst others, it has approved the revised 5-year business plan which will allow the Bank to fulfil its business objectives and become profitable. The revised business plan will enable the Bank to substantially increase its operations during this period and requires a share capital increase, for which the major shareholder of Ancoria Investments Plc, the parent company, has already committed to participate.

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

| Item | €'000 |
|--------------------------------------|---------------|
| Own Funds (Tier 1) | 29,662 |
| Share Capital | 101 |
| Share Premium | 49,900 |
| Reserves | (19,609) |
| Intangible Assets | (730) |
| Common Equity Tier 1 | 29,662 |
| Total Tier 1 Capital | 29,662 |
| Additional Own Funds (Tier 2) | - |
| Total Tier 2 | - |
| Total Own Funds | 29,662 |
| Common Equity Tier 1 Ratio | 37.67% |
| Total Capital Ratio | 37.67% |

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 2018, 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 2018. The share premium account is not available for distribution in the form of a dividend.

The Bank is comfortably above regulatory capital ratio minima. Nevertheless, the Bank monitors its capital position on a regular basis taking into consideration its business model, macro-economic environment and regulatory environment. Common Equity Tier 1 minimum is set at 4.5% and Tier 1 ratio minimum at 6% with an additional capital conservation buffer of 1.25% (total capital requirement of 9.25%). Countercyclical buffer at reporting date is set to 0% as communicated by the Central Bank of Cyprus on a quarterly basis. Including SREP requirement, the Bank's minimum Total Capital Requirement is set at 15%.

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 2018, taking into account minimum Total Capital Requirement was:

| Risk Type (€'000s) | Pillar 1 Capital |
|--|------------------|
| Credit | 11,542 |
| Market | - |
| Operational | 269 |
| Credit Valuation Adjustment (CVA) | - |
| Total Minimum Capital Requirement | 11,811 |

Table 4: Pillar 1 minimum capital requirements per risk type

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.

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 in line with the Bank's Credit Risk Policy and Strategy as well as the Bank's Risk Appetite Statement.

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.

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 and motor vehicles. 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 2018.

Application of Standardised Approach

The Pillar 1 minimum capital requirement is calculated by exposure using a minimum capital adequacy ratio of 15% (including capital conservation buffer and SREP requirement). 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 | 2,926 | 439 |
| Corporates | 13,519 | 2,028 |
| Retail | 19,148 | 2,872 |
| Secured by mortgages on immovable property | 32,440 | 4,866 |
| 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 | 8,915 | 1,337 |
| Total | 76,948 | 11,542 |

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

Nominated External Credit Assessment Institutions

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 ECAIs 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

Risk of Impairment

The Bank has negligible non-performing facilities and facilities in arrears and no impaired securities. 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.

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those assessed as default. Default loans are defined as loans satisfying any of the below:

- i. Is more than 90 days past due;
- ii. The borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due;
- iii. The facility has been forborne and is more than 30 days past due;
- iv. The facility is considered as non-performing according to reporting rules of EBA's technical standards on supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013.

20% pulling effect holds.

The exposure ceases to be treated as defaulted if none of the entry criteria are met.

For 2018 the Bank has implemented provision methodology for loan loss provisions in alignment with IFRS9 standards. Additional information are available in the Bank's 2018 Financial Statements.

Credit risk disclosures

| (€'000s) | Gross carrying values of | | Specific credit risk adjustments | Net values |
|-----------------------------|--------------------------|-------------------------|----------------------------------|----------------|
| | Defaulted exposures | Non-defaulted exposures | | |
| Loans | 4 | 118,012 | 453 | 117,563 |
| Debt securities | - | 20,081 | 23 | 20,058 |
| Off-balance sheet exposures | - | 28,785 | 93 | 28,692 |
| Total | 4 | 166,878 | 589 | 166,313 |

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 | 4 |
| Returned to non-defaulted status | - |
| Amounts written off | - |
| Other changes | - |
| Defaulted loans and debt securities at the end of the reporting period | 4 |

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

The table below presents the exposure value excluding exposures classified as FVTPL covered by financial collateral, other collateral, guarantees and credit derivatives.

| (€'000s) | Exposures unsecured: carrying amount | Exposures secured: carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|--------------------|--------------------------------------|------------------------------------|---------------------------------|---|---|
| 2018 | | | | | |
| Loans | 2,115 | 115,866 | 112,741 | 3,125 | - |
| Debt securities | 20,081 | - | - | - | - |
| Total | 22,196 | 115,866 | 112,741 | 3,125 | - |
| Of which defaulted | 4 | - | - | - | - |
| 2017 | | | | | |
| Loans | 1,702 | 61,883 | 56,984 | 4,899 | - |
| Debt securities | 6,425 | - | - | - | - |
| Total | 8,127 | 61,883 | 56,984 | 4,899 | - |
| Of which defaulted | - | - | - | - | - |

Table 9: Credit risk mitigation techniques overview

| (€'000s) | ≤ 30 days | >30 days ≤60 days | >60 days ≤90 days | >90 days ≤180 days | >180 days ≤1 year | >1 year |
|-----------------|-----------|-------------------|-------------------|--------------------|-------------------|----------|
| Loans | 20 | 12 | 12 | - | 2 | 1 |
| Debt securities | - | - | - | - | - | - |
| Total | 20 | 12 | 12 | - | 2 | 1 |

Table 10: Ageing of past due exposures

| (€'000s) unless stated as percentage | Exposures before CCF and CRM | | | | Exposures post-CCF and CRM | | | | RWA and RWA density | |
|---|------------------------------|-------|--------------------|-------|----------------------------|-------|--------------------|-------|---------------------|---------------|
| | On-balance amount | sheet | Off-balance amount | sheet | On-balance amount | sheet | Off-balance amount | sheet | RWA | RWA density |
| Central governments or central banks | 47,103 | | - | | 47,089 | | - | | - | 0.00% |
| Regional governments or local authorities | - | | - | | - | | - | | - | - |
| Public sector entities | - | | - | | - | | - | | - | - |
| Multilateral Development Banks | 153 | | - | | 153 | | - | | - | 0.00% |
| International Organisations | - | | - | | - | | - | | - | - |
| Institutions | 11,191 | | - | | 11,187 | | - | | 2,926 | 26.16% |
| Corporates | 15,333 | | 1,939 | | 14,026 | | 1,928 | | 13,519 | 84.74% |
| Retail | 27,429 | | 14,472 | | 23,786 | | 13,638 | | 19,148 | 51.17% |
| Secured by mortgages on immovable property | 82,157 | | 12,374 | | 82,157 | | 12,374 | | 32,440 | 34.32% |
| Exposures in default | 1 | | - | | - | | - | | - | - |
| Items associated with particular high risk | - | | - | | - | | - | | - | - |
| Covered bonds | - | | - | | - | | - | | - | - |
| Claims on institutions and corporates with a short-term credit assessment | - | | - | | - | | - | | - | - |
| Collective investment undertakings (CIU) | 84 | | - | | 84 | | - | | - | 0.00% |
| Equity | - | | - | | - | | - | | - | - |
| Other items | 13,026 | | - | | 13,026 | | - | | 8,915 | 68.44% |
| Total | 196,477 | | 28,785 | | 191,508 | | 27,940 | | 76,948 | 35.06% |

Table 11: RWA density disclosures by asset class

| Risk-weight Asset class | 0% | 0-10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total (post CCF and CRM) |
|---|---------------|-------|--------------|---------------|---------------|---------------|---------------|------|--------|--------------------------|
| Central governments or central banks | 47,089 | - | - | - | - | - | - | - | - | 47,089 |
| Regional governments or local authorities | - | - | - | - | - | - | - | - | - | - |
| Public sector entities | - | - | - | - | - | - | - | - | - | - |
| Multilateral Development Banks | 153 | - | - | - | - | - | - | - | - | 153 |
| International Organisations | - | - | - | - | - | - | - | - | - | - |
| Institutions | - | - | 8,892 | - | 2,296 | - | - | - | - | 11,187 |
| Corporates | - | - | 287 | - | 1,392 | - | 14,275 | - | - | 15,954 |
| Retail | - | - | - | - | - | 37,424 | - | - | - | 37,424 |
| Secured by mortgages on immovable property | - | - | - | 74,110 | 20,422 | - | - | - | - | 94,531 |
| 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) | 84 | - | - | - | - | - | - | - | - | 84 |
| Equity | - | - | - | - | - | - | - | - | - | - |
| Other items | 4,111 | - | - | - | - | - | 8,915 | - | - | 13,026 |
| Total | 51,428 | - | 9,179 | 68,662 | 22,921 | 28,722 | 21,787 | - | - | 219,448 |

Table 12: Risk weight break-down disclosures by asset class

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 values 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.

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-collect ("HTC") and a held-to-collect-and-sell ("HTCS") portfolio. The HTC 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 HTCS portfolio is also restricted to fixed income investments and money markets 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 2018.

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 | 1,168 | 870 | - | - | 298 | 332 |
| USD | 147 | 3 | - | - | 144 | 126 |
| JPY | 2,217 | - | - | - | 2,217 | 18 |
| CHF | 19 | - | - | - | 19 | 17 |
| SEK | 270 | - | - | - | 270 | 26 |
| PLN | 459 | - | - | - | 459 | 107 |
| Total of net Long positions | | | | | | 626 |
| Total of net Short positions | | | | | | 0 |
| Overall net foreign exchange position | | | | | | 626 |

Table 13: Foreign currency exposure

Interest Rate Risk

Interest rate risk in the banking book is monitored through ALCO on a monthly basis 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 Bank has introduced internal net interest income sensitivity limits according to internally defined methodology. These limits are part of the bank-wide Risk Appetite Statement and are monitored through ALCO reports on a monthly basis.

The following table indicates the variation on the Bank's economic value of ± 200 basis points in interest rates in Euro and other currencies.

| Change (€000) | Euro | Other currencies | Total |
|-------------------|-------|------------------|-------|
| 2018 | | | |
| -200 basis points | (581) | (28) | (609) |
| +200 basis points | 2,469 | 28 | 2,497 |
| 2017 | | | |
| -200 basis points | (24) | (13) | (37) |
| +200 basis points | 410 | 13 | 423 |

Table 14: Interest rate sensitivity on Bank's economic value

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.

Liquidity Risk Monitoring

The Bank's main funding sources are shareholder capital and customer deposits and partly through co-financing schemes. 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 monthly 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 2018.

Regulatory ratios

The following table demonstrate compliance with European (Liquidity Coverage Ratio and Net Stable Funding Ratio) regulatory liquidity ratios. Note that local regulatory ratios ("Prudential Liquidity") have been abolished on 1st January 2018.

The CBC however has introduced the following macro-prudential measure for one year commencing 1st January 2018:

1. Additional liquidity requirements in the form of add-on rates on some of the parameters used in the calculation of LCR;
2. Additional liquidity requirements in the form of add-on rates on some deposit categories.

Additional requirements will be done in two stages, first and second half of 2018. The add-ons have been abolished with the end of 2018.

| Requirement | As per LCR computation | Add-ons | |
|--|------------------------|---------|---------|
| | | Stage 1 | Stage 2 |
| LCR Inflows | | | |
| Assets with an undefined contractual end date | 20% | 0% | 10% |
| LCR Outflows | | | |
| Retail deposits subject to higher outflows | 11%-15% | 20% | 10% |
| Retail stable deposits | 5% | 5% | 2.5% |
| Operational deposits | 25% | 15% | 7.5% |
| Non-operational deposits by other customers | 40% | 5% | 2.5% |
| Retail deposits exempted from LCR outflows calculation | 0% | 5% | 2.5% |
| Additional general add-ons | | | |
| Financial companies deposits with maturity over 30 days | 100% | 15% | 7.5% |
| Non-financial companies deposits with maturity up to 30 days | 40% | 10% | 5% |
| Non-financial companies deposits with maturity over 30 days | 40% | 10% | 5% |

Table 15: LCR add-ons by CBC

The Bank complies with all regulatory ratios and is significantly above regulatory minimums.

| | Value (€'000s) / Percentage |
|---|--------------------------------|
| Liquidity buffer | 60,090 |
| Net liquidity outflow | 7,877 |
| Liquidity coverage ratio (%) | 763% |
| Numerator calculations | |
| L1 excl. EHQCB "adjusted amount before cap application" | 51,905 |
| L2A "adjusted amount after cap application" | 2,633 |
| L2B "adjusted amount after cap application" | 3,073 |
| Liquidity buffer | 60,090 |
| Denominator calculations | |
| Total Outflows | 14,285 |
| Reduction for inflows subject to 75% Cap | 6,408 |
| Net liquidity outflow | 7,877 |

Table 16: Liquidity Coverage Ratio breakdown

| Available Stable Funding Amounts | | | | |
|---|------------|--------------------|------------------|----------------|
| Category | ASF Factor | Actual (€'000s) | With (€'000s) | Haircut |
| Tier 1 Capital Instruments | 100% | 29,715 | | 29,715 |
| Deposits over 1 year | 100% | - | | - |
| Stable Retail Deposits up to 1 year | 95% | 62,845 | | 59,703 |
| Less Stable Retail Deposits up to 1 year | 90% | 80,109 | | 72,098 |
| All other categories of deposits up to 1 year | 50% | 14,493 | | 7,247 |
| Total | | | | 168,762 |
| Required Stable Funding Amounts | | | | |
| Category | RSF Factor | Actual | With Haircut | |
| All other Level 1 assets | 5% | 7,387 | | 369 |
| All Level 2A assets | 15% | 5,052 | | 758 |
| All Level 2B assets | 50% | 6,142 | | 3,071 |
| All performing loans under 1 year | 50% | 4,426 | | 2,213 |
| All performing loans over 1 year | 85% | 110,652 | | 94,054 |
| Total | | | | 100,465 |
| NSFR Ratio | | | | 168% |

Table 17: Net Stable Funding Ratio breakdown

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.

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 2018.

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 have been 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 in place 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. Insurance coverages include Directors and Officers Liability Insurance, Banker's Blanket Bond, Computer Crime and Civil Liability Insurance and Cyber Insurance.

The Bank performs an ICAAP report once a year, which amongst others involves assessment and stress testing of operational risk. 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.

Within 2018 the Bank has performed its second Risk Control Self-Assessment (RCSA) report.

The following process was followed:

- Step 1** Initial meeting with department heads to layout the structure of processes and procedures performed by the department
- Step 2** Assessment of processes and agreement with department heads on additional implementations required to improve controls. Information from internal and external audits was also taken into consideration for the assessment.
- Step 3** RCSA findings communicated to senior management and report submitted to the BoD Risk Committee.
- Step 4** Final bank-wide report submitted to the Board of Directors.

For each process of each department the following were assessed:

- Inherent Risk Types** The following risk type categories were used across departments: strategic, reputational, operational, transaction, financial, compliance, legal, project.
- Systems used** Registry of all systems used which could also act as an inventory of the Bank's technological dependencies.
- Outsourced activities** Whether the aforementioned activity is considered as outsourcing as per the CBC's Governance directive.
- Third party reliance** Vendor names on which the Bank depends on either to execute the aforementioned process or for the provision of systems or services.
- Automation** Whether the process is automated to the extent possible or not without compromising controls in place.
- Risks involved and existing controls** Description of inherent risks involved and description of controls in place (systems, policies, procedures, audits) used to mitigate such risks.
- Adequacy of controls** The level of sufficiency of existing controls in place.
- Risk Score** Ranking of a risk based on its severity and probability
- Additional controls** Suggested additional controls if and where required and their status of implementation.

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.

| Operational Risk | Minimum Capital Requirement (€'000s) |
|-------------------------------|--------------------------------------|
| Basic Indicator Method | 1,794 |
| Total Required Capital | 1,794 |

Table 18: Operational risk total capital requirements

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;
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 2018. The Bank does not have any employees which have total remuneration over EUR1 million.

| 2018 | | | | | |
|---|------------------------------------|--------------------------------|-------------------------------|---------------------|-----------------|
| 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 | 8 | 8 |
| Fixed Remuneration / Fees | €104,819 | €347,850 | €146,835 | €473,433 | €360,568 |
| Employer's contributions | - | 23,235 | €11,870 | €35,101 | €27,997 |
| Variable Remuneration | - | - | - | €9,000 | €4,500 |
| Total Remuneration | €104,819 | €371,085 | €158,705 | €517,534 | €393,066 |
| Outstanding Deferred Remuneration | - | - | - | - | - |
| New sign-on payments / severance payments | - | - | - | - | - |

Table 19: Remuneration disclosures 2018

| 2017 | | | | | |
|---|------------------------------------|--------------------------------|-------------------------------|---------------------|------------------|
| 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 | 8 | 8 |
| Fixed Remuneration / Fees | € 108,412 | € 342,000 | € 148,250 | €464,353 | € 382,048 |
| Employer's contributions | - | €22,941 | €11,980 | €34,263 | €28,997 |
| Variable Remuneration | - | € 75,000 | € 2,000 | - | - |
| Total Remuneration | € 108,412 | € 439,941 | € 162,230 | € 498,616 | € 411,045 |
| Outstanding Deferred Remuneration | - | - | - | - | - |
| New sign-on payments / severance payments | - | - | - | - | - |

Table 20: Remuneration disclosures 2017

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.

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 2018, all assets of the Bank were held free of any encumbrance.

| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|--|--------------------------------------|---------------------------------|--|-----------------------------------|
| 2018 | €'000 | €'000 | €'000 | €'000 |
| Collective Investment Undertakings (CIU) | - | - | 84 | 84 |
| Debt securities | - | - | 20,148 | 20,195 |
| Other assets | - | - | 176,975 | 176,975 |
| Total | - | - | 197,207 | 197,254 |

Table 21: Asset encumbrance disclosures 2018

| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|-----------------|--------------------------------------|---------------------------------|--|-----------------------------------|
| 2017 | €'000 | €'000 | €'000 | €'000 |
| Debt securities | - | - | 80 | 80 |
| Other assets | - | - | 6,362 | 6,368 |
| Total | - | - | 93,376 | 93,376 |

Table 22: Asset encumbrance disclosures 2017

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 2018 is significantly above regulatory minimum of 3%.

The disclosure as shown in the tables below has been prepared using the format set out in Annex I of the final *Implementation Technical Standards with regard to disclosure of the Leverage ratio for instructions* (Commission Implementing Regulation – EU 2016/200).

| Item | 2018 | 2017 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Total consolidated assets as per published financial statements | 196,477 | 98,361 |
| Adjustment for off-balance sheet items | 11,293 | 8,660 |
| Leverage ratio exposure | 207,770 | 107,021 |
| Tier 1 capital | 29,662 | 34,835 |
| Leverage ratio | 14.28% | 32.55% |

Table 23: Summary comparison of accounting assets vs leverage ratio exposure measure

| Item (€'000) | Leverage ratio exposure | |
|---|-------------------------|----------------|
| | 2018 | 2017 |
| On-balance sheet exposures | | |
| On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 197,207 | 98,866 |
| Asset amounts deducted in determining Basel III Tier 1 capital | (730) | (505) |
| Total on-balance sheet exposures | 196,477 | 98,361 |
| Other off-balance sheet exposures | | |
| Off-balance sheet exposure at gross notional amount | 28,765 | 20,682 |
| Adjustments for conversion to credit equivalent amounts | (17,472) | (12,022) |
| Off-balance sheet items | 11,293 | 8,660 |
| Capital and total exposures | | |
| Tier 1 capital | 29,662 | 34,835 |
| Total exposures | 207,770 | 107,021 |
| Leverage ratio | | |
| Basel III leverage ratio | 14.28% | 32.55% |

Table 24: Leverage ratio common disclosure template

| Item (€'000) | Leverage ratio exposure | |
|---|-------------------------|---------------|
| | 2018 | 2017 |
| Total on-balance sheet exposures | 197,207 | 98,866 |
| Central governments and central banks | 47,134 | 18,637 |
| Institutions | 11,344 | 4,746 |
| Secured by mortgages on immovable properties | 82,157 | 45,542 |
| Of which secured by mortgages of residential properties | 63,419 | 38,516 |
| Retail exposures | 27,596 | 14,375 |
| Retail SME | 11,277 | 5,296 |
| Corporate | 15,220 | 5,673 |
| Financial | - | - |
| Non-financial | 15,220 | 5,673 |
| SME exposures | 8,067 | 3,313 |
| Corporate exposures other than SME | 7,154 | 2,360 |
| Other exposures | 13,756 | 9,892 |

Table 25: On-balance sheet leverage ratio exposures

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.

| CRR Ref. | Title | Compliance Reference (Document Sections) |
|--|--|---|
| General principles | | |
| Article 431 | Scope of disclosure requirements | Publication on Bank's website. |
| Article 432 | Non-material, proprietary or confidential information | Introduction - Verification |
| Article 433 | Frequency of disclosure | Introduction – Basel III framework |
| Article 434 | Means of disclosures | Introduction – Basel III framework |
| Technical criteria on transparency and disclosure | | |
| Article 435 | Risk management objectives and policies | Governance and Risk Management, Risk Management Framework and Annex I |
| Article 436 | Scope of application | Introduction – Scope of Application |
| Article 437 | Own funds | Capital Requirements |
| Article 438 | Capital requirements | Risk Management Framework – Internal Capital and Liquidity Assessment Process, Capital Requirements |
| Article 439 | Exposure to counterparty credit risk | Credit Risk – Credit risk disclosures |
| Article 440 | Capital buffers | Capital Requirements |
| Article 441 | Indicators of global systemic importance | Not applicable to the Bank |
| Article 442 | Credit risk adjustments | Credit Risk – Credit risk disclosures |
| Article 443 | Unencumbered assets | Asset Encumbrance |
| Article 444 | Use of ECAs | Credit Risk – Nominated External Credit Assessment Institutions |
| Article 445 | Exposure to market risk | Capital Requirements, Market Risk |
| Article 446 | Operational risk | Operational Risk |
| 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 | Market Risk – Interest Rate Risk |
| Article 449 | Exposure to securitisation positions | Not applicable to the Bank |
| Article 450 | Remuneration policy | Remuneration Policy & Practices |
| Article 451 | Leverage | Leverage |
| 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 | Credit Risk – Credit Risk Management Procedures |
| 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 |

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