ANCORIA BANK

banking redefined

PILLAR 3 DISCLOSURES 2019

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Abbreviations

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

Introduction

Incorporation and Principal Activity

Ancoria Bank is a relatively newly established Cyprus bank, licensed and supervised by the Central Bank of Cyprus ("CBC"). The Bank was granted the banking license on 3 November 2014 and began operations as a Credit Institution in the fourth quarter of 2015, following the fulfilment of licensing conditions imposed by the CBC.

Ancoria Bank offers a range of banking products and services to individuals, small-to-medium enterprises ("SME") and Corporates. It operates three banking centres in Nicosia, Limassol and Larnaca.

Ancoria Bank is a retail and corporate bank that has been in operation since October 2015 and operates exclusively in Cyprus. Its current activities are concentrated in the provision of loans to individuals and businesses and the acceptance of deposits. Treasury activities span around placements for the preservation of capital until full deployment through loan disbursements is achieved and maintenance of liquidity ratios within acceptable limits.

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 2019 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 guidelines[2]. 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

[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)

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.

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.

Governance and Risk Management
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. The Risk Management Function is responsible for the risk appetite of the organisation and the monitoring of risks on a regular basis. The primary objectives of the financial risk management function are to establish risk limits and then to ensure that exposure to risks stays within these limits. The bank regularly reviews its risk management framework to reflect the changes in market and economic conditions as well as effective best practice 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 assists the Board of Directors in fulfilling its responsibilities.

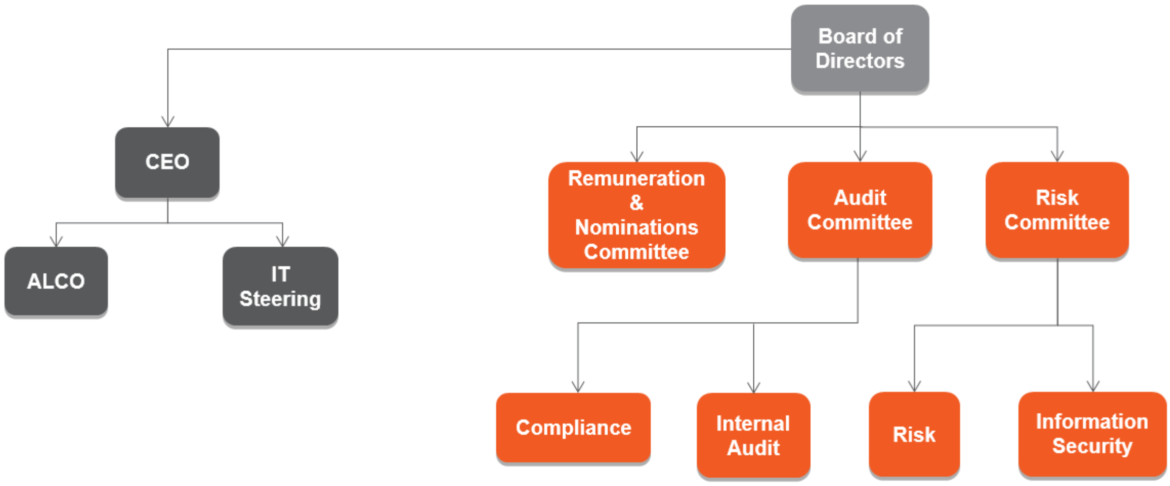

Figure 1: Governance

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 years ahead. It is reviewed and approved by the Board of Directors on an annual basis and its monitored monthly through ALCO and at least quarterly by the Board of Directors.

Board of Directors

The following table shows the number of directorships the directors of the board held, including the Bank's in 2019. 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 2019 shown in the table below includes retired or resigned Directors who retired or resigned during the year 2019.

Name	Position held with Ancoria Bank	Directorships – Executive	Directorships – Non-Executive
Andreas C. Kritiotis	Chairman	-	2
Charalambos Panayiotou	Vice-Chairman	1	3
Charidemos Theocharides	Non-executive Director Senior Independent Director	1	2
Martin Schenk	Non-executive Director	-	1
Sievert Larsson	Non-executive Director	-	3
Athena Papadopoulou	Non-executive Director	-	1
Marios Clerides	Non-executive Director	-	4
Chloe Kyprianou	Non-executive Director	-	1
Ioannis Loizou	Executive Director	1	2
Evgenia Christodoulou	Executive Director	1	2
Nicolas Prentzas	Executive Director	1	-

Table 1: Board of Directors composition and directorships

We note that Ms. Evgenia Christodoulou has resigned from her position on 9th of August 2019.

During 2019 the Board of Directors met 10 times in its efforts to effectively discharge its duties

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 2019 the Committee has convened 11 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 2019 the Committee has convened 5 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 2019 the Committee has convened 7 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.

Risk Management Framework

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.

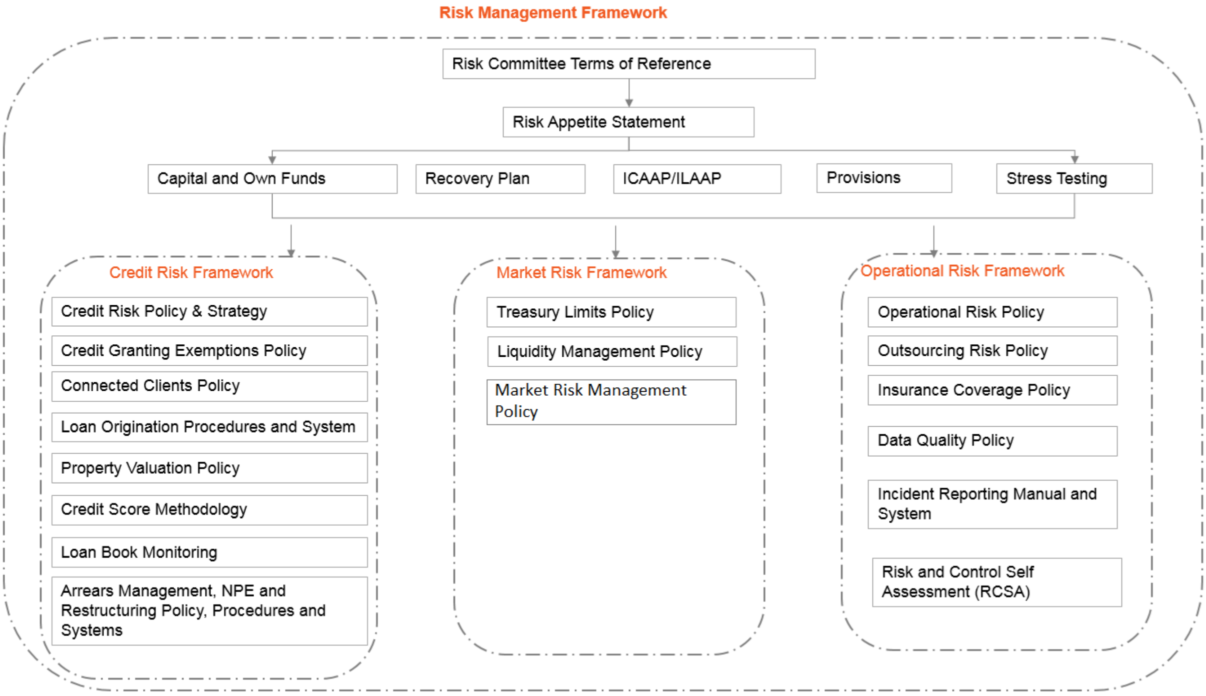

Figure 2: Risk Management Framework

Figure 2 above shows the architecture of the RMF’s policies and procedures. During 2019 and in the first quarter of 2020 the following policies and bank-wide were approved/reviewed by the Board of Directors:

1. Risk Appetite Statement
2. Credit Granting Exemptions Policy
3. Arrears Management Policy
4. Credit Risk Management Policy
5. Market Risk Management Policy
6. Arrears Management Strategy
7. Credit Risk Strategy
8. Stress Testing Policy
9. Data Quality Policy
10. Recovery Plan
11. Property Valuations Policy
12. Capital and Own Funds Policy
13. Treasury Risk Limits Policy
14. Connected Clients Policy
15. Outsourcing Risk Management Policy
16. Insurance Coverage Policy
17. Operational Risk Management 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 Ancoria Bank through the Board of Directors, is prepared to accept in order to achieve its objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all material risks.

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

- the financial profile and position of the Bank
- the Bank's capacity to manage and control and absorb risk
- the Bank's strategic, capital and financial plans as well as compensation programs
- the requirements of the Central Bank of Cyprus ("CBC") Governance and Management Directive of 2014
- the Central Bank's conditional requirements for license to operate in the Republic of Cyprus capital, liquidity and other regulatory requirements applicable
- capital, liquidity and other regulatory requirements applicable

The Bank's risk appetite statement is monitored on a monthly basis through ALCO and on a quarterly basis through the BoD Risk Committee.

The risk appetite statement considers the risk strategy of the Bank as well as the Bank's BoD approved business plan. The Bank's risk appetite statement and by extension the business plan, takes into consideration both regulatory capital and liquidity requirements but also bank-specific buffers. The BoD approved risk appetite statement is readily available to all Bank employees.

The Bank has updated its risk appetite to include qualitative statements of compliance risk. These include specific statements of zero tolerance for Money Laundering and Terrorism Financing Risks and the requirement to act compliance with all applicable laws and regulations that govern its operations and business.

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 1% above regulatory TCR and no less than 13%;
2. Liquidity: The Bank aims to maintain its Liquidity Coverage Ratio above the regulatory minimum to value of 105% and its Net Stable Funding Ratio above the regulatory minimum to a value of 105%;
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. Assessing the inherent risks when setting the Bank's strategy;
3. Ensuring that risk management is a fundamental part of the Bank's strategy, risk appetite statement and capital planning;
4. Drafting of policies and procedures according to the Bank's strategy and risk appetite statement;
5. Communicating occasions of misalignment with risk strategy and risk appetite statement;

6. Performing bank-wide stress testing and sensitivity analyses;
7. Assisting the business decision making process by assessing the inherent risks;
8. Recommending remedial actions where and when risk limits are breached.
9. Developing stress test guidelines/framework to facilitate effective stress test analysis.

The Risk Management Function is responsible for the risk appetite of the bank and the monitoring of risks on a regular basis. The primary objectives of the financial risk management function are to establish risk limits and then to ensure that exposure to risks stays within these limits. The bank regularly reviews its risk management framework to reflect the changes in market and economic conditions as well as effective best practice.

Internal Capital and Liquidity Assessment Process (ICAAP/ILAAP)

The Bank has prepared the ICAAP/ILAAP with reference date 31/12/2019. 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 Internal Capital and Liquidity Adequacy Process (the "ICAAP/ILAAP") report is to:

- provide an overview of the Bank's standing in different risk areas;
- measure the effectiveness of risk management processes and
- assess capital and liquidity adequacy under a number of stressed scenarios as well as the Strategy and Business plan as approved by the Board of Directors (BoD) in January 2020.

Specifically, the role of the ICAAP is to:

- analyse, assess and quantify the risks that the organisation is exposed to;
- quantify the current and future capital needs for the risks the organisation is exposed to;
- explain how the organisation monitors and mitigates risks;
- ensure that the organisation has effective risk management systems;
- enable management to review and/or revise its strategy, if necessary, to ensure its viability at all times and
- enable the regulator to assess the organisation's internal capital adequacy assessment process.

The ILAAP summarises the approach that Ancoria has taken towards:

- identification of liquidity risk drivers relevant to the Bank
- determination of stress testing assumptions and scenarios that are relevant to the Bank
- calculation of the liquid asset buffer requirement under the stress 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 Supervisory Review and Evaluation Process (SREP) assessment arises from the consideration of four key elements:

1. the analysis of the respective business model including its related risk profile,
2. the assessment of internal governance and institution wide control arrangements,
3. the assessment of risks to capital and adequacy of capital (ICAAP) and
4. the assessment of risks to liquidity and adequacy of liquidity resources. (ILAAP)

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 3-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.

Credit Risk Definition

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

Item	€'000
Own Funds (Tier 1)	**26,467**
Share Capital	101
Share Premium	49,900
Reserves	(22,843)
Intangible Assets	(691)
Common Equity Tier 1	**26,467**
Total Tier 1 Capital	**26,467**
Additional Own Funds (Tier 2)	**-**
Total Tier 2	**-**
Total Own Funds	**26,467**
Common Equity Tier 1 Ratio	**19.20%**
Total Capital Ratio	**19.20%**

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 2019, the Bank had a total issued share capital of 101.000 ordinary shares of nominal value of €1 each. There was no change in the authorised or issued share capital of the Bank during 2019.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. Countercyclical buffer at reporting date is set to 0% as communicated by the Central Bank of Cyprus on a quarterly basis. The Bank's minimum Total Capital Requirement is set at 15%.

Capital	Regulatory Requirement
Minimum TCR	8,00%
Conservation buffer	2,50%
Countercyclical buffer	0%
SREP	4.5%
Total Capital	15%

Table 4: Total 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 2019, taking into account minimum Total Capital Requirement was:

Risk Type (€'000s)	Pillar 1 Capital
Credit	20,416
Market	-
Operational	647
Credit Valuation Adjustment (CVA)	-
Total Minimum Capital Requirement	**21,063**

Table 5: Pillar 1 minimum capital requirements per risk type

Credit Risk

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 2019.

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	216	17
Regional governments or local authorities	0	0
Public sector entities	924	74
Multilateral Development Banks	0	0
International Organisations	0	0
Institutions	4,434	355
Corporates	29,732	2,379
Retail	22,463	1,797
Secured by mortgages on immovable property	60,042	4,803
Exposures in default	248	20
Items associated with particular high risk	6,417	513
Covered bonds	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investment undertakings (CIU)	0	0
Equity	0	0
Other items	9,070	726
Total	**133,546**	**10,684**

Table 6: 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 7: 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. An exposure is considered as default if any or all of the following apply at the reference date:

i. Material exposures as set by the Central Bank of Cyprus (CBC) (for more information see *"Materiality threshold"* definition below) are 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 within the probation period.

iv. Performing forborne exposures under probation for which additional forbearance measures are extended.

v. 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.

If the customer has more than one credit facilities, of which a defaulted exposure amounts to 20% or more of total facilities, then all facilities of the customer should be considered as defaulted for the purposes of this document.

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

Materiality threshold

For obligors of retail exposures, including exposures secured by mortgages of residential or commercial property, the higher of:

i. A minimum limit of €500, i.e. if the amount in arrears of an obligor who has a retail exposure does not exceed €500 this exposure is not classified as defaulted exposure, or

ii. One loan instalment or an overdraft excess of 10% of the contractual limit, as applicable

For other exposures, the higher of:

i. A minimum limit of €1,000, i.e. if the total amount in arrears of the total exposure of an obligor does not exceed €1,000, the exposure to that obligor are not classified as defaulted exposures, or

ii. The amount of arrears and excesses that in total exceed 10% of the total exposures to the obligor

Materiality thresholds are calculated on a per group basis and not on a per customer basis (e.g. if a customer has three facilities in arrears of €180 each, since the total amount in arrears of the customer is above €500, then the materiality threshold has been hit).

For 2019 the Bank has implemented Loan Loss provision methodology which is in alignment with IFRS9 standards. Additional information are available in the Bank's 2019 Financial Statements.

Credit risk disclosures

(€'000s)	Gross carrying values of		Specific credit risk adjustments	Net values
	Defaulted exposures	Non-defaulted exposures		
Loans	207	209,958	543	209,621
Debt securities	-	27,205	24	27,181
Off-balance sheet exposures	-	35,028	43	34,985
Total	**207**	**272,190**	**610**	**271,788**

Table 8: Credit quality of assets

Defaulted loans and debt securities at the end of the previous reporting period	4
Loans and debt securities that have defaulted since the last reporting period	204
Returned to non-defaulted status	1
Amounts written off	
Other changes	
Defaulted loans and debt securities at the end of the reporting period	**207**

Table 9: 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
2019					
Loans	11,792	233,401	224,251	9,150	-
Debt securities	30,540	-	-	-	-
Total	**42,332**	**233,4401**	**224,251**	**9,150**	**-**
Of which defaulted	4	199	179	20	-
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	-	-	-	-

Table 10: 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	2,317	195,640	287	15	186	13
Debt securities	-	-	-	-	-	-
Total	**2,317**	**195,640**	**287**	**15**	**186**	**13**

Table 11: Ageing of past due exposures

(€'000s) unless stated as percentage	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Central governments or central banks	26,068	-	26,052	-	216	0.83%
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	1,911	-	1,907	-	924	48,45%
Multilateral Development Banks	153	-	153	-	-	0%
International Organisations	-	-	-	-	-	-
Institutions	14,148	-	13,952	-	4,434	31,78%
Corporates	34,020	9,444	30,618	8,945	29,732	75,15%
Retail	32,546	12,970	27,659	11,688	22,463	57,09%
Secured by mortgages on immovable property	147,514	12,333	147,514	12,333	60,042	37,56%
Exposures in default	207	-	165	-	248	150,30%
Items associated with particular high risk	4,306	87	4,278	0	6,417	150%
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings (CIU)	87	-	87	-	-	0%
Equity	-	-	-	-	-	-
Other items	13,479	-	13,479	-	9,070	67,29%
Total	**274,439**	**34,834**	**265,864**	**32,966**	**133,546**	

Table 12: RWA density disclosures by asset class

Risk-weight / Asset class	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total (post CCF and CRM)
Central governments or central banks	24,846	569	-	-	-	-	-	-	637	**26,052**
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	**0**
Public sector entities	-	-	101	-	1,806	-	-	-	-	**1,907**
Multilateral Development Banks	153	-	-	-	-	-	-	-	-	**153**
International Organisations	-	-	-	-	-	-	-	-	-	**0**
Institutions	-	-	8,473	-	5,479	-	-	-	-	**13,952**
Corporates	-	-	482	-	4,302	-	-	34,780	-	**39,563**
Retail	-	-	-	-	-	39,347	-		-	**39,347**
Secured by mortgages on immovable property	-	-	-	103,146	56,263	-	438	-	-	**159,847**
Exposures in default	-	-	-	-	-	-	-	165	-	**165**
Items associated with particular high risk	-	-	-	-	-	-	-	4,278	-	**4,278**
Covered bonds	-	-	-	-	-	-	-	-	-	**0**
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	**0**
Collective investment undertakings (CIU)	87	-	-	-	-	-	-	-	-	**87**
Equity		-	-	-	-	-	-	-	-	**0**
Other items	4,409	-	0	-	-	-	9,070	-	-	**13,479**
Total	**29,495**	**569**	**9,056**	**103,146**	**67,850**	**39,347**	**9,508**	**39,223**	**637**	**298,830**

Table 13: Risk weight break-down disclosures by asset class

Market Risk

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.

As a result of a mismatch of interest rates on the Bank's assets and liabilities and/or timing differences in the maturity thereof, the organization might suffer a loss or a decline in profit due to changes in Interest Rates.

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

The Price risk that is borne by an Investment Portfolio hinges on a number of factors, including Equity risk, Interest Rate risk, Commodity risk, and FX risk.

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

The risk of loss resulting from the difference between assumed and actual foreign exchange rates in the case where a financial institution has a long position or short position on a net basis with regard to its assets and liabilities denominated in foreign currencies.

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 2019.

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	2,777	2,268	-		9	11
USD	438	7	-	-	431	384
JPY	471	-	-	-	471	4
CHF	26	-	-	-	26	24
SEK	120	-	-	-	120	11
PLN	511	-	-	-	511	120
			Total of net Long positions			554
			Total of net Short positions			0
			Overall net foreign exchange position			**554**

Table 14: 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
2019			
-200 basis points	158	(11)	147
+200 basis points	(3,147)	11	(3,136)
2018			
-200 basis points	(581)	(28)	(609)
+200 basis points	2,469	28	2,497

Table 15: Interest rate sensitivity on Bank's economic value

Liquidity Risk

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 2019.

Regulatory ratios

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

The Bank's maintain a strong liquidity position and appropriate procedures for the Management of liquidity risk. Liquidity is managed by the Treasury Department whereas oversight of liquidity risk is performed by the Risk Management Function and the ALCO.

The liquidity position of the Bank as at 31-12-2019 as measured through key regulatory ratios is set below:

Regulatory Liquidity Ratios	Regulatory Requirement	Position as at 31 December 2019
LCR	≥100%	344%
NSFR	≥100%	126%

Table 16: Bank's Regulatory Liquidity Position as at 31 Dec 2019

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

	Value (€'000s) / Percentage
Liquidity buffer	**37,263**
Net liquidity outflow	**10,820**
Liquidity coverage ratio (%)	**344%**
Numerator calculations	
L1 excl. EHQCB "adjusted amount before cap application"	30,136
L1 EHQCB "adjusted amount after cap application"	2,345
L2A "adjusted amount after cap application"	2,967
L2B "adjusted amount after cap application"	1,815
Liquidity buffer	**37,263**
Denominator calculations	
Total Outflows	16,353
Reduction for inflows subject to 75% Cap	5,534
Net liquidity outflow	**10,820**

Table 17: Liquidity Coverage Ratio breakdown

Available Stable Funding Amounts			
Category	ASF Factor	Actual (€'000s)	With Haircut (€'000s)
Tier 1 capital instruments	100%	25,904	**25,904**
Tier 2 capital instruments	100%	0	**0**
Deposits over 1 year (column 'after 12 months')	100%	645	**645**
Stable Retail Deposits up to 1 year (row 040)	95%	149,867	**142,374**
Less Stable Retail Deposits up to 1 year (row 050)	90%	49,464	**44,518**
All other categories of Deposits up to 1 year	50%	21,077	**10,539**
Total			**223,979**
Required Stable Funding Amounts			
Category	RSF Factor	Actual (€'000s)	With Haircut (€'000s)
All other Level 1 assets	5%	0	**0**
All Level 2A assets	15%	0	**0**
All Level 2B assets	50%	0	**0**
Other financial assets with a remaining maturity of less than one year	50%	6,423	**3,212**
Unencumbered securities (not HQLAs and not in default) with a remaining maturity over one year	85%	6,423	**5,460**
All performing loans under 1 year(rows 900-1250)	50%	4,304	**2,152**
All performing loans over 1 year (rows 900-1250)	85%	196,443	**166,977**
All other assets (NPLs)	100%		**0**
Total			**177,800**
NSFR Ratio			**126%**

Table 18: Net Stable Funding Ratio breakdown

Operational Risk

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 2019.

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.

Beginning 2020, the Bank has started performing its second Risk Control Self-Assessment (RCSA) report.

The preparation of RCSA is as follows:

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 where 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.

Business Resilience and Continuity Risk Management

Business continuity plan is in place so that any Business continuity risks are managed. The purpose of BCP is to ensure that the Bank has business resiliency and continuity plans in place and is able to operate on an ongoing basis and limit losses in the event of severe business disruption. Moreover, an IT Disaster Recovery (DR) plan is maintained, reviewed and tested annually.

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	4,310
Total Required Capital	**4,310**

Table 19: Operational risk total capital requirements

Remuneration Policy

A. Purpose & Scope

The purpose of the Bank's Remuneration Policy is to provide an effective framework for determining, implementing, overseeing and amending, whenever required, the remuneration, both fixed and variable, of Ancoria 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, at all times, aligned with the risk appetite, values and long-term interest of the Bank. The Policy is fully compliant with all relevant local and international legislation.

B. Principles

The Bank follows a set of principles, as required by the relevant legislation, in a manner and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

1. Characteristics of the Policy

Covers all staff.

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.

Is in line with the business strategy, objectives, values and long-term interests of the Bank, and incorporates measures to avoid conflicts of interest.

2. Design & Review of the Policy

Design and amendment of the Policy is completed with the involvement of the BoD and its relevant Committees, internal control functions and corporate functions.

Review of the Policy is performed on, at least, an annual basis, for compliance with relevant policies and procedures.

3. Disclosure to Shareholders

Shareholders are informed of the fees and emoluments of both the executive and non-executive Directors of the BoD, through the annual financial statements.

Identification Policy for 'Identified Staff'

The Bank has responsibility for the identification of identified staff, which is to be made through a self-assessment by the Remuneration & Nominations Committee on an annual basis, and the involvement of relevant corporate functions. The Identification Policy is part of the Remuneration Policy.

The identification is based on a set of qualitative and quantitative criteria that need to be taken into account, as set out in Commission Delegated Regulation (EU) No 604/2014.

The list of identified staff is periodically updated during the year.

The Bank keeps records of the identification process and is in a position to provide relevant clarifications and explanation to the Central Bank of Cyprus.

4. Categories of Remuneration

The Policy distinguishes between two categories of remuneration, basic fixed, and variable remuneration, whose characteristics are outlined below:

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. It is reviewed on an annual basis.

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.

5. All Staff

The total amount of performance-related remuneration is based on a combination of the assessment of the performance of the individual staff member, the business unit/department concerned, and the overall results of the Bank.

The Bank ensures that the total variable remuneration does not limit the ability of the Bank to strengthen its capital base.

Guaranteed variable remuneration shall not be provided to any member of staff.

The allocation of the variable remuneration components takes into account all types of current and future risks.

Fixed and variable components of total remuneration are appropriately balanced, whereby the fixed component represents a sufficiently high proportion of the total remuneration. Specifically, the variable component shall not exceed 50% of the fixed component of the total remuneration for each individual member of staff, in order to avoid excessive risk taking. The BoD may approve a higher maximum level, which shall not exceed 100% of the fixed component of the total remuneration for each individual.

6. Identified Staff:

Additional principles apply for identified staff, including the following:

The fixed remuneration reflects their professional experience and organisational responsibility.

Assessment of performance is set in a multi-year framework, in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components is spread over a period.

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 (5) years.

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.

Deferral of at least 60% of variable remuneration in case that the amount to be awarded is particularly high.

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.

Payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct.

Instruments, if and where introduced, are to form at least 50% of variable remuneration.

Discretionary pension benefits, if and where introduced, shall follow the principles below:

If an employee leaves the Bank before retirement, such benefits shall be held by the Bank for a period of five (5) years in the form of instruments, without the application for pro-rata vesting

If an employee reaches retirement, such benefits shall be paid in the form of instruments, subject to a five (5) year retention period.

7. Determining Fixed & Variable Remuneration

Remuneration, both fixed and variable, is determined by different corporate functions / bodies, based on the category that each member of staff falls into. Namely, the five categories are: executive and non-executive members of the BoD, identified staff, heads of internal control functions and all other staff.

8. Performance Measurement

In order to measure the individual's performance, an annual performance evaluation process takes place at the beginning of each year, through which the performance of the previous period is reviewed, and job-related and personal development objectives are set for the next evaluation period.

9. Remuneration of the BoD

The remuneration of the executive members of BoD is consistent with their powers, tasks, expertise and responsibilities.

The remuneration of the non-executive members of the BoD is only fixed, so as to properly address conflicts of interest.

Where the non-executive members of the BoD, in exceptional cases, are awarded variable remuneration, the variable remuneration and risk alignment should be strictly tailored to the assigned oversight, monitoring and control tasks, reflecting the individual's authorities and responsibilities and the achievement of objectives linked to their functions.

10. Remuneration of Internal Control Functions

Members of internal control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control, so as to ensure that no material conflict of interest arises. The remuneration is predominantly fixed, to reflect the nature of their responsibilities.

11. Conflicts of Interest

The Policy is in line with the business strategy, objectives, values and long-term interests of the Bank, and incorporates measures to avoid conflicts of interest.

2019					
Identified staff *in accordance with the criteria set out in the Commission Delegated Regulation (EU) 604/2014*	Non-Executive Members of the Board	Executive Members of the Board	Independent Control Functions	Corporate functions	Retail banking
No. of Staff (Head Count)	8	2	3	10	8
Fixed Remuneration / Fees	€143,537	€311,858	€99,293	€484,131	€333,117
Employer's contributions	-	€20,976	€8,123	€33,282	€23,591
Variable Remuneration	-	-	-	€2,000	-
Total Remuneration	**€143,537**	**€332,834**	**€107,416**	**€519,414**	**€356,708**

Outstanding Deferred Remuneration	-	-	-	-	-
New sign-on payments / severance payments	-	-	-	-	-

Table 20: Remuneration disclosures 2019

2018					
Identified staff *in accordance with the criteria set out in the Commission Delegated Regulation (EU) 604/2014*	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 21: Remuneration disclosures 2018

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.

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. As asset is categorised as unencumbered if it has not been pledged against an existing liability.

As at 31 December 2019, all assets of the Bank were held free of any encumbrance.

2019	Carrying amount of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying amount of unencumbered assets €'000	Fair value of unencumbered assets €'000
Collective Investment Undertakings (CIU)			87	87
Debt securities	10,194	10,482	16,987	17,212
Other assets			240,208	247,498
Total	**10,194**	**10,482**	**257,282**	**264,797**

Table 22: Asset encumbrance disclosures 2019

2018	Carrying amount of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying amount of unencumbered assets €'000	Fair value of unencumbered assets €'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 23: Asset encumbrance disclosures 2018

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 2019 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	2019	2018
	€'000	€'000
Total consolidated assets as per published financial statements	273,265	196,477
Adjustment for off-balance sheet items	14,389	11,293
Leverage ratio exposure	**287,654**	**207,770**
Tier 1 capital	**26,467**	**29,662**
Leverage ratio	**9.20%**	**14.28%**

Table 24: Summary comparison of accounting assets vs leverage ratio exposure measure

Item (€'000)	Leverage ratio exposure 2019	Leverage ratio exposure 2018
On-balance sheet exposures		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	273,680	197,207
Asset amounts deducted in determining Basel III Tier 1 capital	(415)	(730)
Total on-balance sheet exposures	**273,265**	**196,477**
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	35,032	28,765
Adjustments for conversion to credit equivalent amounts	(20,643)	(17,472)
Off-balance sheet items	**14,389**	**11,293**
Capital and total exposures		
Tier 1 capital	26,467	29,662
Total exposures	**287,654**	**207,770**
Leverage ratio		
Basel III leverage ratio	**9,20%**	**14.28%**

Table 25: Leverage ratio common disclosure template

Item (€'000)	Leverage ratio exposure 2019	Leverage ratio exposure 2018
Total on-balance sheet exposures	**273,680**	**197,207**
Central governments and central banks	26,205	47,134
PSEs not treated as sovereigns	1,907	-
Institutions	13,952	11,344
Secured by mortgages on immovable properties	147,514	82,157
Of which secured by mortgages of residential properties	93,247	63,419
Retail exposures	32,346	27,596
Retail SME	9,790	11,277
Corporate	33,734	15,220
Financial	-	-
Non-financial	33,734	15,220
SME exposures	20,062	8,067
Corporate exposures other than SME	13,672	7,154
Exposures in default	165	-
Other exposures	17,857	13,756

Table 26: On-balance sheet leverage ratio exposures

Reference to CRR compliance on Pillar III

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 criterial 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 ECAIs	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