ANCORIA BANK

banking redefined

PILLAR 3 DISCLOSURES 2021

Contents

Contents

1. INTRODUCTION

1.1 Corporate Information

Ancoria Bank Limited ("the Bank") is a relatively newly established Cyprus bank, licensed and supervised by the Central Bank of Cyprus ("CBC"). The Bank was incorporated in Cyprus on 20 August 2013 as a limited liability company under the Cyprus Companies Law, Cap.113.

On 14 October 2013, the Company filed an application with the Central Bank of Cyprus for a banking licence to enable the Company to operate as a Credit Institution under the Business of Credit Institutions Laws of 1997 and all amendments thereafter. The Bank was granted the banking license on 3 November 2014 and began operations as a Credit Institution in October 2015, following the fulfilment of licensing conditions imposed by the CBC.

The principal activity of the Bank is the provision of banking services mainly in Cyprus. Its banking products and services are concentrated in the provision of loans to individuals, small-to-medium enterprises ("SME") and Corporates and the acceptance of deposits. Treasury activities span around placements for the management of the Bank's liquidity with an aim to maintain its liquidity ratios within acceptable limits.

Currently the Bank operates three banking centres in Nicosia, Limassol and Larnaca.

1.2 Scope of application

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

Changes in group structure

There were no changes in the group structure that the Bank is part of during the year ended 31 December 2021.

1.3 Basel III Regulatory Framework

The Basel III Framework comprises of three Pillars:

- Pillar 1. Sets the minimum capital and liquidity requirements the Bank must adhere to cover the liquidity, credit risk, the market risk and the operational risk and relevant computation methodology
- Pillar 2. Internal self-assessment and supervisory assessment of Bank-wide risk management, governance and capital planning. It includes the internal capital adequacy processes and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of a bank's capital adequacy and internal processes.
- Pillar 3. Sets external disclosure requirements in terms of frequency and format for uniform assessment of information on the capital structure, risk exposures, risk management, internal processes and capital adequacy to allow market participants to assess key pieces of information.

This document represents both quantitative and qualitative disclosures for the year ended 31 December 2021, in accordance with the requirements of Part Eight of the EU Regulation 575/2013 (the "CRR") and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, as amended by Regulation (EU) 2019/876 (the "CRR II") and Directive (EU) 2019/878 (the "CRD V"), respectively. Relevant European Banking Authority ("EBA") Guidelines were adopted where applicable.

1.4 Materiality

The Bank discloses additional information in this report as regards its risk management objectives and policies for each separate category of risk, including the strategies and processes to manage those risks, the structure and organization of the relevant risk management function or other appropriate arrangements and the scope and nature of risk reporting and measurement systems, to allow market participants to have a clear understanding and a comprehensive view of the Bank's capital position and risk profile.

The Bank may elect to exempt from this report information which is considered as non-material, proprietary or confidential as per EBA GL/2014/14 guidelines[1]. 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.

As of 27 July 2019, the CRR was updated by the CRR Amendment Regulation (EU) 2019/876 known as CRR2. Regulation (EU) 2019/876 which is an amendment to Regulation (EU) 575/2013, and defines proportionality as this is reflected in Part Eight, and outlines the disclosures which are applicable to different institutions, depending on their size, complexity and on whether they are listed or non-listed institutions.

CRR2 introduced definitions of 'small and non-complex institutions' and 'large institutions' to support enhanced proportionality. Small and non-complex institutions' disclosures will focus on key metrics while large and listed institutions will disclose more detailed information. Institutions that are not subject to Article 433a to fall under 'large institutions' or 433b to fall under 'small and less complex institutions' shall disclose information under the institution type 'Other Institutions'. For the preparation of these Disclosures, the Bank has adopted the European Banking Authority (EBA) Guidelines on Pillar III disclosures requirements, where applicable.

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, taking into account the principle of proportionality, is in compliance with the standardised disclosure tables and templates of the EBA guidelines.

Based on CRR2, Ancoria Bank shall be categorized under institution type "Other Institutions (Not Listed)" and Pillar III Disclosures have been prepared on this basis.

1.5 Verification, frequency and publication

The Bank's Risk Management Function ("RMF") has an oversight of the framework and process followed by the Bank for the preparation of Pillar 3 Disclosures for 2021. The document is validated by the Bank's Audit and Risk Committees and approved by the Board of Directors (the "BoD") prior to being publicly available. The Report is published annually on the Bank's website www.ancoriabank.com (ABOUT US), in conjunction with the Bank's Annual Financial Report, as per regulatory guidelines. The Bank's Pillar 3 frequency of disclosures is included in the Bank's Pillar 3 disclosures policy.

1.6 Attestation

The Board of Directors is responsible for reviewing the effectiveness of the Bank's risk management arrangements and systems of financial and internal control. These are assigned to manage rather than eliminate the risks of not achieving business objectives, and – as such – offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Executive Management and the Board of Directors considers that it has in place adequate systems and controls with regard to the Bank's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

In addition, the Board of Directors declare that the liquidity management arrangements and systems of the Bank are adequate with regards to its risk profile and strategy.

[1] 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-propretary-and-confidentiality-and-on-disclosure-frequency)

2. GOVERNANCE ARRANGEMENTS

2.1 Governance

Table – EU OVB

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, accept or transfer these risks according to the Bank's risk appetite. The Risk Management Function is responsible for the monitoring and adherence to the Bank's risk appetite and the monitoring of risks on a regular basis. The primary objectives of the RMF are to establish risk limits and then to ensure that exposure to risks are contained within the limits set. The bank regularly reviews its risk management framework to reflect the changes in market and economic conditions as well as effective best practice and to suggest amendments where weaknesses are identified in order to mitigate them.

The Board of Directors of the Bank 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 risk 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.

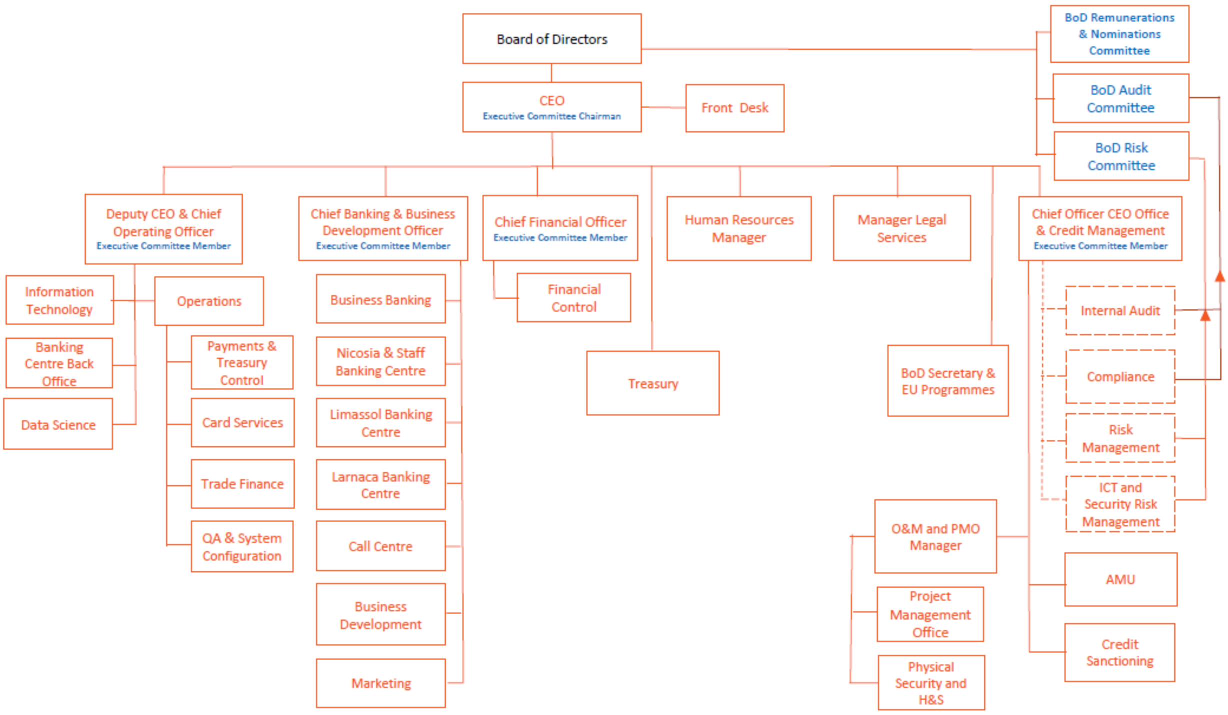

Figure 1: Governance

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

Internal control functions have direct access to the BoD to communicate any concerns and meet with their respective Board committees at least on a quarterly basis. Internal control functions have 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.

2.2 Board of Directors

The following table shows the number of directorships the directors of the board held, including the directorship position held in the Bank's Board of Directors in 2021. 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 2021 shown in the table below includes retired or resigned Directors who retired or resigned during the year 2021:

Name	Position held with Ancoria Bank	Directorships – Executive	Directorships – Non-Executive
Dr Andreas C. Kritiotis	Chairman - Independent	-	2
Charalambos Panayiotou	Vice-Chairman	1	3
Charidemos Theocharides	Non-executive Independent	1	2
Bo Sievert Larsson	Non-executive	-	3
Athena Papadopoulou	Non-executive Independent	-	1
Dr Marios Clerides	Non-executive Independent	-	1
Chloi Kyprianou Bohm	Non-executive Independent	-	2
Alexandra Spyrou	Non-executive Independent	-	4
Ioannis Loizou	Executive	1	2
Nicolas Prentzas	Executive	1	-

- Mr. Panayiotis Mavromichalis resigned from his position on 1st September 2021.
- There were no other significant changes in the composition or distribution of responsibilities of the Board of Directors during the year ended 31 December 2021.
- During 2021 the Board of Directors met 13 times in its efforts to effectively discharge its duties while the Board of Directors' Committees convened as follows:
    - Audit Committee - 14 times
    - Risk Committee – 9 times
    - Remunerations and Nominations Committee - 6 times

2.3 Board of Directors Declaration

The management and BOD of the Bank provide assurance that the Risk Management Framework is adequate given its risk profile and its strategy.

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.
The Bank has a Liquidity Management Policy and a Treasury Risks Limit Policy in place which are approved by the BoD and reviewed at least annually. Early Warning Levels for regulatory liquidity ratios are also reflected in the Bank's Recovery Plan.

2.4 Board Committees

The Bank has established the following Board Committees:

Audit Committee

During 2021 the Committee has convened 14 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 annual appraisal of the heads of the internal audit function and compliance function and subsequently their submission to the BoD;
- The carrying out of a self-assessment and reporting its conclusions and recommendations for improvements and changes to the BoD;
- The monitoring of the establishment of accounting policies and practices.

Remunerations and Nominations Committee

During 2021 the Committee has convened 6 times. The Committee's duties and responsibilities include:

- The preparation of decisions regarding remuneration, including those which have implications for the risk 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:
  - these are closely linked with the Bank's business objectives and strategies;
  - these are in line with the CBC Governance Directive;
- Non-executive members are not included in the beneficiaries of performance related remunerations.
- Identifying and recommending, for the approval of the Board of Directors , 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 2021 the Committee has convened 9 times. The Committee's duties and responsibilities include:

- Advises the Board of Directors:
  - ✓ 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;

- ✓ on the adequacy and effectiveness of the risk management framework, based on the input of the audit committee, risk management function and external auditors;
- ✓ on the adequacy and effectiveness of the information security framework, based on the input of the audit committee, information security manager and external auditors;
- ✓ to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner:
- ✓ to ensure the adequate protection of the institution's confidential and proprietary information;
- ✓ 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;
- ✓ 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 pricing of banking products 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 and recommendations for the appointment or removal of the heads of the risk management function and information security function;
- 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;
- Carries out the annual appraisal of the heads of the risk management function and information security function and submitting them to the Board of Directors;
- Reviews and approves of the budgets of the risk management and information security functions, ensuring that they are sufficiently flexible to adapt to variations in response to developments;
- Conducts a self-assessment and report its conclusions and recommendations for improvements and changes to the Board of Directors.

2.5 Recruitment Policy regarding the selection of Board of Directors members

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 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 of 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 selection and succession of the Directors is subject to the Shareholders' approval, to whom the Committee offers its opinion as to the reasoning of their selection.
The Bank has in place a policy in relation to the selection, appointment, and succession of members of the Board.

2.6 Diversity policy regarding the selection of Board of Directors members

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

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

3. RISK MANAGEMENT FRAMEWORK

3.1 Overview

Table 1 – EU OVA

Risk management is considered to be an integral part of the Bank's operations and as such the Board of Directors ("BoD" or the "Board") and Senior Management take all reasonable steps to recognize and assess risks and develop strategies to effectively manage, control and mitigate them. The Board, considering the importance of risk management on the Bank's operations, especially given the fragile economic conditions and the demanding regulatory environment in which the Bank operates, has defined the Bank's Risk Appetite Statement (the "Risk Strategy"), which is in alignment with the Bank's overall strategic goals and objectives.

The Risk Strategy of the Bank aims to provide its Management and employees with a general framework for the management of the different types of risk in line with the Bank's risk appetite. The Risk Strategy is in alignment with the business strategy and operational targets, as well as the external and internal environment of the Bank.

The Bank's risk management strategy is based on the following principles:

- To create value for the shareholders by accommodating the capital needs for value-enhancing growth;
- To comply with the regulatory requirements;
- To manage capital effectively, through reliable measurement of the current capital situation and forecasts of its future developments;
- To promote transparent risk disclosure through clear communication lines to the Bank's Senior Management.

Based on the latest Risk strategy, the Bank has set the following medium to long term objectives:
- Reaching profitability;
- Preserve and enhance capital and liquidity and comply with regulatory limits
- Improve asset quality and expanding the Bank's lending portfolio by providing support to the local economy;
- Maintain the NPE at very low levels;
- Enhance the new innovative application for Digital Lending which will be available through the Bank's digital channels..

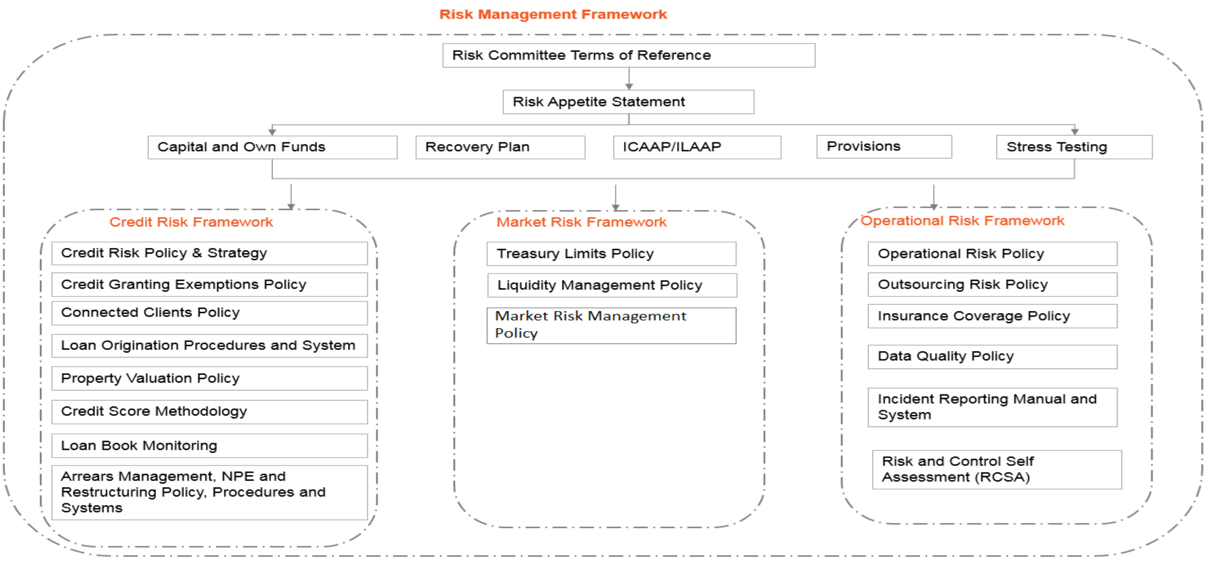

Figure 2: Risk Management Framework

Figure 2 above shows the architecture of the RMF's policies and procedures. During 2021 and in the first quarter of 2022 the following policies and bank-wide were approved/reviewed by the Board of Directors:

1. Risk Appetite Statement
2. Pillar III Disclosures policy

3. Credit Risk Management Policy
4. ICT Risk Management Policy
5. Credit Risk Strategy
6. Arrears Management Policy
7. Property Valuations Policy
8. Sanctions Policy
9. Remuneration Policy
10. Information Security Policy
11. Customer Acceptance Policy
12. Forbearance and Default classification Policy
13. Provisioning Policy
14. Outsourcing Policy

3.2 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 (BoD), 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, 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 by the BoD 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.

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, credit and counterparty, 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:

Capital: The Bank aims to maintain its reportable Total Capital Ratio ("TCR") 1% above regulatory TCR and no less than 13%;

Liquidity: The Bank aims to maintain its Liquidity Coverage Ratio above the regulatory minimum to a value of 115% and its Net Stable Funding Ratio above the regulatory minimum to a value of 107,5%;

Leverage: The Bank aims to maintain its Leverage Ratio to a minimum of 6%.

3.3 Risk Management Function

The Bank has a risk management function (the "RMF") headed by the risk manager that is independent of the business and support lines it monitors and controls. The RMF reports directly to the Board of Directors through its Risk Committee and is responsible for the timely and accurate monitoring of all risks of the Bank. The head of the RMF reports directly to the Board of Directors Risk Committee. ICT and Security Risk Management is a separate internal control function that reports directly to the Board of Directors through its Risk Committee. In view of their close relationship, internal 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.

The Risk Management Function is responsible for the correct and timely monitoring of the risk appetite statement of the bank and the monitoring of risks on a regular basis. The primary objectives of the 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.

Indicatively, the RMF 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.

3.4 Basel III Framework

Basel III Framework comprises of three Pillars, all of which are detailed below:

- Pillar 1 which sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.
  - ✓ The Bank has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighted using specific weights, depending on the class the exposures belong to and their credit rating.
  - ✓ The Bank has applied the Comprehensive Approach for the recognition of collateral, as this enables the fairer recognition and more accurate estimation of the Bank's capital.
  - ✓ The Bank has adopted the Standardised Approach for the calculation of the minimum capital requirements for market risk, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models.
  - ✓ The Bank uses the Basic Indicator Approach ("BIA") for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a specific percentage on the average over three years of the relevant indicator on the basis of the last three twelve-monthly positive figures (in accordance with articles 315 & 316 of the CRR) at the end of the financial year

- Pillar 2 which cover the Supervisory Review & Evaluation process ("SREP") that includes rules to ensure that adequate capital and liquidity is in place to support any risk exposures of the Bank and requires appropriate risk management, reporting and governance policies.
  - ✓ SREP is a holistic assessment of the Bank's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks.
  - ✓ The objective of SREP is for the CBC to form an up-to-date supervisory view of the Bank's risks and viability and to form the basis for supervisory measures and dialogue with the Bank.
  - ✓ Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process ("ICAAP"), while at the same time maintaining communication with supervisors on a continuous basis.

- ✓ In conjunction with the ICAAP, banks are required to prepare the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP acts as a control cycle through which the Bank identifies, evaluates, manages and monitors its liquidity risks. The key objective behind ILAAP is to ensure the Bank has sufficient liquidity resources to support its business and be able to withstand any adverse future conditions which may threat its liquidity position. The ILAAP forms an integral part of the Bank's risk management framework, plays a key role in the strategic planning of the Bank and is used to facilitate the decision making process. Finally, the Bank is required to prepare a Recovery Plan report which aims to formulate the framework in terms of actions capable of restoring the Bank's capital asset quality, profitability and liquidity metrics under stress scenarios thus strengthening the Bank's ability to restore its financial and economic standing. The bank's recovery plan builds on the ICAAP/ILAAP stress test and defines the processes for "close to default conditions". All the above reports (ICAAP, ILAAP, and Recovery Plan) are submitted to CBC and evaluated during the SREP of the Bank.
- ✓ For the year 2021 the ICAAP, ILAAP reports have been submitted to CBC on 31 July 2021 and were based on 2020 year end results. The Recovery Plan has been submitted to CBC in November 2021 with reference date 30 June 2021.

EU OVC - ICAAP

A significant component of the Bank's Risk management process and framework is the ICAAP process. The ICAAP process is run as a comprehensive assessment of risk profile and quantification of risk through stress testing with the participation of all key stakeholders within the Bank.

The Bank is required to prepare the ICAAP pursuant to Article 73 in accordance to CRD IV.

The scope of the ICAAP is to describe the process by which the Bank:

- ➢ Identifies, measures, aggregates and controls risks
- ➢ Calculates required capital for its risk profile, and
- ➢ Projects its needs over a horizon for achieving longer term capital targets
- ➢ Evaluates the Bank's capital adequacy in absorbing potential losses under stressed conditions.

As a principle, the ICAAP has reference date the audited financial statements of the Bank of the previous year end unless otherwise agreed with the CBC. The forward looking capital planning and internal capital assessment is performed on the basis of the Bank's business plan for the forthcoming 3 years period.
The ICAAP should not be seen as a separate or stand-alone process but should be seen as a component of the overall risk management framework of the Bank. This should allow the bank's management to take into account all the risks associated with the bank's business strategies and the required level of capital that the bank needs to cover such risks.
Therefore, strategic decisions such as the expansion into new markets, the introduction of new products and the expansion of treasury operations should be assessed and evaluated in the light of their effect on the bank's risk situation and risk-bearing capacity of the bank.
The ICAAP report is prepared on an annual basis unless exemption is obtained by the CBC, in parallel with the ILAAP report, and usually required to be submitted by the 30th April each year.

The following table shows the methodology followed by the Bank for the preparation of the ICAAP report.

Pillar I regulatory capital requirement	Pillar II Risks – ICAAP process	Management actions	Conclusions
• Minimum Capital requirement: 8% which does not include the following capital buffers introduced under CRR/CRDIV: ✓ Conservation Buffer ✓ Countercyclical Buffer ✓ Systemic Risk	• The Bank's latest business plan approved by the Board of Directors. The business plan which applies the Bank's 3-year strategic assumptions in order to create a baseline scenario for the Bank's profitability,	Management actions may include: ✓ Capital injection ✓ Additional internal controls to reduce the possibility of	• ICAAP report submission for evaluation to the Bank's Asset and Liability Committee ("ALCO"), the Internal

• Calculated using prescribed parameters for credit, operational and market risk	financial position and capital position. • Material risk assessment through the Risk register tool and Pillar 2 capital allocation based on the conclusions of the material risk assessment. • Projections of outcome for 3 years (both Baseline and Adverse Scenarios). • Assessment of current and future capital requirements. • Comparison of the regulatory capital obligations (as communicated in the latest CBC SREP and presented below) with the Bank's capital ratios, in order to ensure that the highest quality of capital is available to cover its regulatory and internal requirements both under the Baseline scenario and the Stress Scenario • Quantification of stress tests which may include the below: ◦ Credit risk through an increase in Probability of defaults/ reduction in cure rates ◦ Collateral risk through reduced property prices and higher liquidation costs ◦ IRRBB based on adverse movements in interest rates ◦ Business risk through a reduction in New Lending ◦ Operational Risk based on the BIA method and projected gross income	occurrence or adversity of consequences	Auditor and the Board of Directors' Risk Committee, and to the BoD for approval before is submitted to the CBC for the SREP. • The Bank submits to the CBC a Capital Adequacy Statement with the Board's opinion

The Bank is in the process of preparation of its ICAAP / ILAAP report for the year 2021. The Bank has received its latest SREP communication in December 2020 which noted that the CBC has adopted, in line with European Banking Authority's statement of 22 April 2020, a pragmatic approach towards SREP for the 2020 cycle, which focuses on the ability of the Bank to handle the challenges of COVID-19 crisis and its impact on their current and prospective risk profile. Furthermore, it noted that previous SREP decisions as communicated by CBC in January 2020 are not superseded nor amended and remain in force. Namely the latest SREP requirement has been set at 4,5% (2020: 4,5%), raising the Total Capital Ratio requirement to 15% without Pillar 2 Capital Guidance and to 15,5% with Pillar 2 Capital Guidance.

Taking into consideration the recently received SREP requirement, the Total Capital Ratio requirement as of 1 January 2021 is set at 15% without Pillar 2 Capital Guidance and at 15,5% with Pillar 2 Capital Guidance.

As a response to COVID-19 impact, concessions have been announced by the European Central Bank with regards to the capital adequacy and liquidity ratios whereby banks are temporarily able to operate below the Pillar II ('P2G') equity buffer, CCB, Countercyclical Capital Buffer ('CCyB'), as well as, the liquidity coverage ratio ('LCR'). In addition, it was decided to early implement the change resulting from the adoption of the CRDV on Pillar II ('P2R') supervisory requirements, allowing it to be covered by additional Tier 1 funds ('AT1') and Tier 2 funds and not only by Common Equity Tier 1 funds. As a result, the regulatory capital requirement of the Bank up until 31 December 2022 is at 15%.

The accounting basis of the Bank is prepared in accordance with IFRS and is described in the Notes of the Bank's Financial Statements for 2021.
This section outlines a comparison between the basis for accounting and prudential purposes.

- Pillar 3 which sets out required disclosures to allow market participants and stakeholders to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.
  - ✓ Disclosures include information that relates to the Bank's risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

3.5 Key metrics

The table below provides the key prudential and regulatory information and ratios covered by the CRR II, including own funds, RWAs, capital ratios, capital buffers requirements, requirements based on SREP, leverage ratio, liquidity coverage ratio and net stable funding ratio. The table covers all 2021 quarters and the results as at 31 December.

For all periods presented below, except for 31 December 2021 and 31 December 2020, capital ratios and leverage ratio disclosed are as in accordance with the regulatory reporting submissions, in which unaudited profits are excluded.

Table - EU KM1

Table - EU KM1		a	b	c	D	e
		31 Dec 2021	**30 Sep 2021**	**30 Jun 2021**	**31 Mar 2021**	**31 Dec 2020**
		€	**€**	**€**	**€**	**€**
	Available own funds (amounts)					
1	**Common Equity Tier 1 (CET1) capital**	37.489.005	34.062.041	34.123.736	34.329.154	34.282.139
2	**Tier 1 capital**	37.489.005	34.062.041	34.123.736	34.329.154	34.282.139
3	**Total capital**	37.489.005	34.062.041	34.123.736	34.329.154	34.282.139
	Risk-weighted exposure amounts					
4	**Total risk exposure amount**	207.829.565	199.542.168	196.018.309	191.474.193	183.238.445
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	**Common Equity Tier 1 ratio (%)**	18,04%	17,07%	17,41%	17,93%	18,71%

6	**Tier 1 ratio (%)**	18,04%	17,07%	17,41%	17,93%	18,71%
7	**Total capital ratio (%)**	18,04%	17,07%	17,41%	17,93%	18,71%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	**Additional own funds requirements to address risks other than the risk of excessive leverage (%)**	4,50%	4,50%	4,50%	4,50%	4,50%
EU 7b	**of which: to be made up of CET1 capital (percentage points)**	2,54%	2,54%	2,54%	2,54%	2,54%
EU 7c	**of which: to be made up of Tier 1 capital (percentage points)**	3,38%	3,38%	3,38%	3,38%	3,38%
EU 7d	**Total SREP own funds requirements (%)**	12,50%	12,50%	12,50%	12,50%	12,50%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	**Capital conservation buffer (%)**	2,50%	2,50%	2,50%	2,50%	2,50%
EU 8a	**Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)**	-	-	-	-	-
9	**Institution specific countercyclical capital buffer (%)**	-	-	-	-	-
EU 9a	**Systemic risk buffer (%)**	-	-	-	-	-
10	**Global Systemically Important Institution buffer (%)**	-	-	-	-	-
EU 10a	**Other Systemically Important**	-	-	-	-	-

	Institution buffer (%)					
11	**Combined buffer requirement (%)**	2,50%	2,50%	2,50%	2,50%	2,50%
EU 11a	**Overall capital requirements (%)**	15,00%	15,00%	15,00%	15,00%	15,00%
12	**CET1 available after meeting the total SREP own funds requirements (%)**	13,54%	12,57%	12,91%	13,43%	14,21%
	Leverage ratio					
13	**Total exposure measure**	446.749.999	418.423.468	410.754.070	394.169.137	376.990.196
14	**Leverage ratio (%)**	8,39%	8,14%	8,31%	8,71%	9,09%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	**Additional own funds requirements to address the risk of excessive leverage (%)**	-	-	-	-	-
EU 14b	**of which: to be made up of CET1 capital (percentage points)**	-	-	-	-	-
EU 14c	**Total SREP leverage ratio requirements (%)**	3,00%	3,00%	3,00%	3,00%	3,00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	**Leverage ratio buffer requirement (%)**	-	-	-	-	-
EU 14e	**Overall leverage ratio requirement (%)**	3,00%	3,00%	3,00%	3,00%	3,00%
	Liquidity Coverage Ratio					
15	**Total high-quality liquid assets (HQLA) (Weighted value -average)**	93.273.244	64.351.632	61.741.740	54.640.256	53.647.626

EU 16a	**Cash outflows - Total weighted value**	37.369.556	29.827.144	29.539.642	26.379.828	26.322.892
EU 16b	**Cash inflows - Total weighted value**	10.214.383	13.570.015	12.496.873	9.446.909	7.700.225
16	**Total net cash outflows (adjusted value)**	27.155.173	16.257.129	17.042.769	16.932.919	18.622.667
17	**Liquidity coverage ratio (%)**	343%	396%	362%	323%	288%
	Net Stable Funding Ratio					
18	**Total available stable funding**	358.308.788	325.893.984	320.524.412	315.443.018	296.452.988
19	**Total required stable funding**	240.795.219	244.541.529	238.481.762	259.799.869	245.619.544
20	**NSFR ratio (%)**	149%	133%	134%	121%	121%

Capital adequacy and leverage ratio

The Bank's total capital ratio at 31 December 2021 was at 18,04%, whilst the Total Capital Ratio requirement including SREP was 15% without Pillar 2 Capital Guidance and 15,5% with Pillar 2 Capital Guidance. The slight deterioration in the total capital ratio from 31 December 2020 was due to the fact that the increase in own funds, as a result of the increase in profitability, was counterbalanced by the increase in risk weighted assets, mainly due to the increase in the loan portfolio.

The decrease in the leverage ratio was due to the same reasons as the decrease in the capital ratio. Additionally, the significant increase in deposits in the year, resulted in further increase of the balance sheet assets and thus the total exposure which further reduced the leverage ratio.

Liquidity

The improvement in liquidity ratios was mainly as a result of the significant increase in deposits which outweighed the increase in new lending.

4. SCOPE OF APPLICATION OF OWN FUNDS

4.1 Information relating to share capital

Authorised capital

Under its Memorandum of Association, the Company fixed its authorised share capital at 1.000 ordinary shares of nominal value of €1 each. On 15 December 2014, the Company increased its authorised capital to 201.000 ordinary shares of nominal value of €1 each.

Issued capital

As at 31 December 2021, there were 126.000 shares (2020: 121.000) issued ordinary shares with a nominal value of €1 each.

Based on a resolution passed by the Board of Directors on 15 October 2021, the Bank has issued and allotted 5.000 ordinary shares of €1 each at a premium of €499 each, to its sole shareholder, Ancoria Investments Plc, for a total subscription price of €2.500.000. Following this allotment, the total share capital of the Bank as at 31 December 2021 amounted to €126.000 with a total share premium of €62.375.000.

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 the Banking Law of Cyprus which requires the approval of the Central Bank of Cyprus prior to the acquiring of shares of the Bank in excess of certain thresholds.

4.2 Reconciliation of Regulatory Capital with Equity as per Bank's Financial Statements

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.

Reconciliation of Regulatory Capital with Equity as per Bank's Financial Statements

The table presented below provides a reconciliation of own funds items to audited Financial Statements of the Bank for the years ended 31 December 2021 and 31 December 2020, in accordance with the requirements of Part Eight of the EU Regulation 575/2013 Article 437, using the format set out in Annex VII of the Commission Implementing Regulation (EU) 2021/637.

Table - EU CC1 - Composition of regulatory own funds

Composition of regulatory own funds		(a)	(a)	(b)
		31 December 2021	31 December 2020	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		€	€	
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	62.501.000	60.001.000	
2	Retained earnings	(23.939.422)	(24.937.210)	e.
3	Accumulated other comprehensive income (and other reserves)	-	-	
EU-3a	Funds for general banking risk	-	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	-	
5	Minority interests (amount allowed in consolidated CET1)	-	-	

EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**38.561.578**	**35.063.790**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(1.051)	(2.209)	e.
8	Intangible assets (net of related tax liability) (negative amount)	(1.071.522)	(779.442)	b. and e.
9	Not applicable	-	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	
15	Defined-benefit pension fund assets (negative amount)	-	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
20	Not applicable	-	-	
EU-20a	Exposure amount of the following items which qualify for a RW of	-	-	

	1250%, where the institution opts for the deduction alternative			
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	
EU-20c	of which: securitisation positions (negative amount)	-	-	
EU-20d	of which: free deliveries (negative amount)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38—(3) CRR are met) (negative amount)	-	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	
24	Not applicable	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	
EU-25a	Losses for the current financial year (negative amount)	-	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-	
26	Not applicable	-	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	-	
27a	Other regulatory adjustments	-	-	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(1.072.573)	(781.651)	d.
29	**Common Equity Tier 1 (CET1) capital**	**37.489.005**	**34.282.139**	d.
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	-	
31	of which: classified as equity under applicable accounting standards	-	-	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	-	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	-	

EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	-	
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	
41	Not applicable	-	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	-	
42a	Other regulatory adjustments to AT1 capital	-	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-	
44	**Additional Tier 1 (AT1) capital**	-	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**37.489.005**	**34.282.139**	
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	-	-	
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	-	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-	-	

EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Credit risk adjustments	-	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	-	-	
	Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
54a	Not applicable	-	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	
56	Not applicable	-	-	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	-	
EU-56b	Other regulatory adjustments to T2 capital	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	
58	**Tier 2 (T2) capital**	-	-	
59	**Total capital (TC = T1 + T2)**	**37.489.005**	**34.282.139**	
60	**Total Risk exposure amount**	**207.829.565**	**183.238.445**	
	Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	18,04%	18,71%	
62	Tier 1 capital	18,04%	18,71%	
63	Total capital	18,04%	18,71%	

64	Institution CET1 overall capital requirements	9,54%	9,54%	
65	of which: capital conservation buffer requirement	2,50%	2,50%	
66	of which: countercyclical capital buffer requirement	-	-	
67	of which: systemic risk buffer requirement	-	-	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	-	-	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	-	-	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	13,54%	14,21%	
	National minima (if different from Basel III)			
69	Not applicable	-	-	
70	Not applicable	-	-	
71	Not applicable	-	-	
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	- - -	- - -	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	-	
74	Not applicable	-	-	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-	-	
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	

(1) The references (a) to (f) refer to the items of template EU CC2 in Section 4.2 below.

Scope of the prudent valuation standards

The value adjustments to prudent valuation have been calculated pursuant to Article 105 of Regulation (EU) No 575/2013 and in accordance with EBA/RTS/2014/06/rev1 - Regulatory Technical Standards on prudent valuation under Article 105(14) of Regulation (EU) No 575/2013 (CRR), which refers to the prudent valuation standards being applicable to all trading book positions. However, Article 34 of CRR requires that institutions apply the standards of Article 105 to all assets measured at fair value.

The Bank applied the simplified approach described given that the sum of the absolute value of fair-valued assets and liabilities, as stated in the Bank's financial statements under the applicable accounting framework, is less than EUR15bn.

The below tables provide a comparison between the statement of financial position included in the financial statements and the statement of financial position prepared under the regulatory scope of consolidation, in accordance with the format set out in Annex VII of the Commission Implementing Regulation (EU) 2021/637. References in the last column of the tables provide the mapping of items of the statement of financial position under the regulatory scope of consolidation used to calculate regulatory capital.

Table - EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

31 December 2021		a	b	c
		Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
		€	**€**	
Assets				
1	Cash and balances with Central Bank	86.440.907	86.440.907	
2	Placements with banks	5.918.631	5.918.631	
3	Loans and advances to customers	307.037.146	307.049.201	f.
4	Investments at fair value through other comprehensive income	1.041.198	1.041.198	
5	Investments at amortised cost	21.472.446	21.472.446	
6	Other assets	3.364.564	3.287.959	a.
7	Property and equipment	6.093.957	6.093.957	
8	Intangible assets	1.071.522	-	b.
9	**Total assets**	**432.440.371**	**431.304.299**	
Liabilities				
1	Customer deposits	369.179.482	369.179.482	

2	Funding from central banks	13.131.981	13.131.981	
3	Other borrowings	6.990.642	6.990.642	
4	Lease liabilities	784.492	784.492	
5	Provisions and other liabilities	3.789.849	3.728.697	c.
6	**Total liabilities**	**393.876.446**	**393.815.294**	
Equity				
1	Share capital	126.000	126.000	
2	Share premium	62.375.000	62.375.000	
3	Revaluation reserve for securities at FVOCI	2.346	-	d.
4	Accumulated losses	(23.939.421)	(25.011.994)	e.
5	**Total shareholders' equity**	**38.563.925**	**37.489.005**	
Total liabilities and equity		**432.440.371**	**431.304.299**	

		a	b	c
31 December 2020		**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	**Reference**
		€	**€**	
Assets				
1	Cash and balances with Central Bank	46.889.442	46.889.442	
2	Placements with banks	4.557.610	4.557.610	
3	Loans and advances to customers	271.430.543	271.430.543	
4	Investments at fair value through other comprehensive income	2.187.431	2.187.431	
5	Investments at amortised cost	25.452.008	25.452.008	
6	Other assets	3.236.812	2.254.771	a.
7	Property and equipment	6.595.243	6.595.243	
8	Intangible assets	779.442	-	b.
9	**Total assets**	**361.128.531**	**359.367.048**	
Liabilities				
1	Customer deposits	296.260.609	296.260.609	
2	Funding from central banks	18.000.000	18.000.000	
3	Other borrowings	8.124.749	8.124.749	
4	Lease liabilities	989.645	989.645	
5	Provisions and other liabilities	2.683.417	1.709.906	c.
6	**Total liabilities**	**326.058.420**	**325.084.909**	
Equity				
1	Share capital	121.000	121.000	
2	Share premium	59.880.000	59.880.000	
3	Revaluation reserve for securities at FVOCI	6.321	-	d.
4	Accumulated losses	(24.937.210)	(25.718.861)	e.
5	**Total shareholders' equity**	**35.070.111**	**34.282.139**	
Total liabilities and equity		**361.128.531**	**359.367.048**	

Notes

1. References provide the mapping of items of the statement of financial position prepared under the regulatory scope of consolidation used to calculate regulatory capital as reflected in the column “References” in Table “EU CC1 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements”.
2. Own funds is the result of regulatory capital after the deduction of retained earnings and other intangibles. Other intangibles refer mainly to software programs. The Bank deducts from CET1 capital intangible assets in accordance with Article 36 of the CRR. Intangible assets, which include mainly computer software were deducted from CET1 capital. The amount deducted in 2021 and 2020 is reported within the ‘Intangible assets’ line in the tables above. The ‘‘items not subject to capital requirements or subject to deduction from capital’’ comprise of intangible assets deductible from CET1 capital as per Article 36(i)(b) of the CRR (reference b.).
3. The Tables above outline a comparison between the basis for accounting and prudential purposes. Any differences between the carrying values reported in the published Financial Statements and the carrying values under the scope of regulatory purposes may exist due to the different basis for prudential purposes (e.g intangible assets and adjustments to CET1 due to prudential filters), which form the basis for the calculation of the regulatory capital requirements (references a., d. & e.).
4. For the liabilities balances, shown in column ‘Not subject to capital requirements or subject to deduction from capital’ are balancing amounts in order for ‘Carrying values under scope of regulatory consolidation’ to agree to the sum of those in columns relating to the regulatory framework (reference c.).

5. CAPITAL REQUIREMENTS

The Bank has received its first SREP communication by the CBC on 24th January 2019 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 maintain profitability. 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 as at 31 December 2021, is calculated in accordance with the provisions of the EU Regulation 575/2013.

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% without Pillar 2 Capital Guidance and at 15,5% with Pillar 2 Capital Guidance:

Table - EU OV1 – Overview of total risk exposure amounts

2021		Total risk exposure amounts (TREA)		Total own funds requirements
		a	B	c
		31 December 2021	30 September 2021	31 December 2021
		€	€	€
1	Credit risk (excluding CCR)	195.866.452	191.952.405	15.669.316
2	Of which the standardised approach	195.866.452	191.952.405	15.669.316
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	-	-	-
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	-	-	-

9	Of which other CCR	-	-	-
10	Not applicable	-	-	-
11	Not applicable	-	-	-
12	Not applicable	-	-	-
13	Not applicable	-	-	-
14	Not applicable	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	11.963.113	7.589.763	957.049
EU 23a	Of which basic indicator approach	11.963.113	7.589.763	957.049
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
25	Not applicable	-	-	-
26	Not applicable	-	-	-
27	Not applicable	-	-	-
28	Not applicable	-	-	-
29	**Total**	**207.829.565**	**199.542.168**	**16.626.365**

2020		**Total risk exposure amounts (TREA)**		**Total own funds requirements**
		a	**B**	**c**
		31 December 2020	**30 September 2020**	**31 December 2020**
		€	**€**	**€**
1	Credit risk (excluding CCR)	175.648.682	142.397.280	14.051.895
2	Of which the standardised approach	175.648,682	142.397.280	14.051.895
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-

5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	-	-	-
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	-	-
10	Not applicable	-	-	-
11	Not applicable	-	-	-
12	Not applicable	-	-	-
13	Not applicable	-	-	-
14	Not applicable	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	7.589.763	4.309.994	607.181
EU 23a	Of which basic indicator approach	7.589.763	4.309.994	607.181
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
25	Not applicable	-	-	-
26	Not applicable	-	-	-
27	Not applicable	-	-	-
28	Not applicable	-	-	-
29	**Total**	**183.238.445**	**146.707.274**	**14.659.076**

Notes

1. The credit RWAs have increased by €20 million during 2021, mainly due to the below:
   a. increase of the bank's lending portfolio
   b. reclassification of exposures between the various exposure classes and increase of the exposure

2. The operational RWAs have increased by €4 million during 2021, mainly due to the increase in the operating income of the Bank, for the last three years.

6. CREDIT RISK - EU CRA

6.1 Credit Risk Definition

Credit risk is the risk arising from the uncertainty of a borrower's ability to perform their contractual obligations. Credit risk could arise from both on-balance sheet and off-balance sheet transactions. The Bank is exposed to Credit risk from diverse financial instruments, primarily from credit facilities, trading and treasury management if one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, trade finance products and acceptances, foreign exchange, swaps, bonds, commitments and guarantees.

6.2 Credit Risk Management procedures

The Bank has in place both a Credit Risk Management Policy and a Credit Risk Strategy that is reflected in the Bank's overall Risk Appetite Statement.

The Bank seeks to achieve an appropriate balance between risk and reward. This is not done by avoiding credit risk exposure but by managing the risk the Bank has chosen to take so that potential credit losses are mitigated. To achieve that the Bank adopts a well-rounded approach to assessing credit risk and ensures that credit risk management is part of an integrated approach to the management of all financial risks and has a clearly defined process as regards the credit cycle.

Risk Management Function

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
- has the responsibility to identify, evaluate and assess the credit risk of the Bank and the responsibility to make proposals on the management of and controls on credit risk through various mechanisms on the basis of the strategic goals as determined by the Board of Directors
- recommends establishing and developing credit policies and procedures based on European and local directives, regulations, and guidelines, best practices performed internationally, and adjusts internal policies and procedures as appropriate
- sets the procedure for granting of credit facilities to customers of the Bank according to the Bank's Risk Appetite Statement and Credit Risk Policy as set by the Board of Directors
- sets limits and principles of financing and assesses the new banking products and new banking activities of the Bank.

Credit granting organisational framework, policies and procedures

Regarding the loan origination process, the Bank has written and published procedures in place that clearly indicate the roles and responsibilities of personnel involved and is in line with the Directive issued by the Central Bank of Cyprus ('CBC') on Credit Granting and Review Processes as updated, including amendments made in April 2020. Segregation of duties is present throughout the process as relationship officers prepare applications and provide an opinion but cannot approve a credit facility. The approval process of credit facilities aims in minimising credit risk by evaluating the creditworthiness of the counterparty, the collateral offered and the type of credit facility. Emphasis is given on the customer's repayment ability and any collaterals assigned act as a fall-back position in times of financial difficulties. Credit risks from connected customer accounts are consolidated and monitored on a single customer group basis. The Bank utilises internally developed credit scoring models as part of its lending procedures.

Credit risk monitoring and reporting

The Bank prepares all reports relating to the control of credit risk at fixed intervals. The Risk Management Function communicates credit risk issues to the Board of Directors through its Risk Committee at least on a quarterly basis. Standardised reports to the Supervision Department of the CBC are sent on a monthly, quarterly, semi-annual and annual basis according to each report's requirements and results are cross-checked prior to submission.

Arrears Management Process

The Bank has in place an Arrears Management Policy and Strategy, as well as an Arrears Management Procedure which is in accordance with the CBC's Directive on Arrears Management of 2015 and as updated.

The relevant policy has been formulated to provide all stakeholders with a comprehensive understanding of how the arrears is to be extended by the Bank and ensure that all staff has a current and consistent guidance.

The Bank has developed a comprehensive and detailed arrears management strategy (AMS) to effectively manage arrears and deal with borrowers in financial difficulties in a systematic, organised and professional manner and is submitted to the CBC for assessment. The AMS includes a clearly defined approach for each of the main category of credit facilities it serves and an operational plan covering the main components of arrears management.

The Bank established an independent, centralised Arrears Management Unit ('AMU') specialising in the various categories of credit facilities with a view to effectively monitor arrears and troubled cases, as well as, restructurings of borrowers in financial difficulties. Due to the size and the limited number of cases currently present, the AMU Manager is also currently acting as a Debt Recovery Unit. Debt Recovery Unit deals with non-viable and non-cooperative borrowers.

Debt Recovery Unit

When a customer is classified as non-viable and / or non-cooperative and all alternative options have been investigated and exhausted, then the case is transferred to the Bank's Debt Recovery Unit. Currently, due to the size and quality of the Bank's portfolio, such an in-house unit does not exist. The Bank will examine the possibility to outsource such cases to specialised companies for the time being.

Credit Sanctioning department

Main responsibility of the Credit Sanctioning department is the thorough, independent and detailed analysis of loan applications in order to comply with the Bank's lending practices and procedures in terms of customers' repayment ability, solvency, credibility and sufficient securitization. In cases of facilities that seek approval from a Committee, these need to go through the Credit Sanctioning. Credit sanctioning should issue the approval/rejection decisions together with the various terms/covenants imposed. In case these terms are amended following renegotiation with the client, then Credit Sanctioning should issue the "final approval" document that should include all terms. In cases of facilities that seek approval from a Committee, after they go through the Credit Sanctioning, need to be submitted for comments to the RMF. The Credit Granting Authorities and the relevant exposure limits are published through a relevant circular issued by the Bank.

Approving authorities

The Bank has in place Credit Granting Approving Limits and Approving Authorities, differentiated depending on the status of the clients (performing, non performing, viable / cooperative or non-viable / non-cooperative). All cases should be accompanied with Credit Sanctioning departments' and Risk Management Function's opinions when reviewed exceeding specific exposure thresholds at group level.

Internal audit department

As a third layer of defence, the Internal Audit department performs audits of the loan origination process for the entire portfolio on a sample-selection basis.

6.3 Measurement and credit limits

The Bank, recognizing that credit risk is its most material risk, has formulated credit policies and a credit strategy which aim to achieve the following:

- To avoid large concentrations of credit exposures to a number of industries / sectors / currency / nature of collateral
- To avoid large unsecured exposures to group of connected customers
- To monitor the exposures on a connected client basis
- To implement sound procedures and controls for the assessment and granting of credit facilities
- To implement sound procedures for the monitoring and reporting of customer exposures

Counterparty Credit Risk ('CCR')

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows (CRR Article 272). As at 31 December 2021 the Bank did not have any outstanding repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions, margin lending transactions or derivative instruments transactions.

Credit risk concentration

According to the EU Regulation 575/2013, a large exposure is defined as the Bank's exposure to a client or group of connected clients which is equal or exceeds 10% of eligible capital. The Bank should not incur exposures the value of which exceeds 25% of the Bank's eligible capital, after taking into account the effect of credit risk mitigation. Throughout the year, the Bank has always been in compliance with the applicable limits set.

Collateral and other credit enhancements

The credit decision is primarily based on the creditworthiness and repayment ability of the borrower, but collateral and guarantees offered as credit risk mitigation techniques are also of significance. It is emphasised, however, that collateral cannot be a substitute for a comprehensive assessment of the borrower or counterparty, nor can it compensate for insufficient information.

When accepting guarantees for credit facilities, the Bank evaluates the level of coverage being provided as per the credit quality, legal capacity and strength of the guarantor. The Bank ensures the enforceability of guarantee agreements and is careful when making assumptions about implied support from third parties.

The Bank has relevant and clear policies and procedures for:

- Accepting different types of collateral;
- Classifying collateral;
- Regularly monitoring and assessing collateral values;
- Ensuring that collateral is legally enforceable, adequate and realisable;
- Identifying and managing any concentrations arising from collateral.

The recoverable amount of a collateral is the realisable amount of the collateral which can be recovered in case of legal enforcement or liquidation of that collateral, which reflects the collateral amount on the legal documents plus interest and other expenses. This depends on the market value or security amount of the collateral based on the CBC directive.

Securities act as a credit risk mitigation measure in the case of customer default. In other words, credit facilities are collateralised as a safety net in case of future adverse deviations in the servicing ability of borrowers. Collaterals are classified into the following categories:

- Own collateral – i.e. belonging to the respective borrower
- Third Party collateral – i.e. belonging to a third party and to not the respective borrower

Collaterals should cover either specific facilities of the customer or all the facilities of a customer with the owner providing his consent accordingly. All types of collaterals can be required and used for all the different types of credit facilities offered by the Bank. Collaterals may take the form of either tangible or non-tangible security. Tangible security are all types of collateral where the Bank can assign recoverable value as per CBC directives (e.g. mortgage on real estate property, cash, Bank guarantees, etc.) whereas non-tangible security refer to collateral without physical existence where the Bank cannot assign a recoverable value (e.g. personal / corporate guarantees, term insurance policies, etc.).

As at 31 December 2021, the main types of collateral obtained by the Bank consisted of:

- Legal Pledge of Cash Deposit - Cash Collateral
- Mortgages - Legal Charge on Property
- Guarantees of which: Personal, Corporate, Government, Bank Guarantees
- Fixed Charges
- Floating Charges on company assets
- Assignment of Life Insurance Policies
- Assignment of General Insurance Policies
- Pledge on marketable securities (shares, debt securities, etc.)

6.4 Application of the standardized approach

The Bank has adopted the Standardised Approach in accordance with the requirements laid down in Article 111 of the CRR for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighted using specific weights, depending on the class the exposures belong to and their credit rating.

Template EU OV1 – Overview of total risk exposure amounts, shows details of the risk weighted assets broken down in the different types of risk.

6.5 Nominated ECAI's

For the purposes of applying the Standardized Approach, the rating of nominated External Credit Assessment Institutions (ECAI) which are recognized by the CBC are Fitch ratings, Standard and Poor's rating services, and Moody's Investor service.

For the purpose of applying the Standardized Approach, 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:

Table – EU CRD

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

6.6 Credit Risk mitigation techniques (CRM)

According to the directive, there are two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Bank has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Bank's capital.

6.7 Countercyclical Capital Buffer

Countercyclical buffer as at 31 December 2021 is set to 0% as communicated by the Central Bank of Cyprus on a quarterly basis.
As set out in Article 130(1) of Directive 2013/36/EU, the Bank's specific countercyclical capital buffer consists of the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures are located. The Bank's specific countercyclical capital buffer as at 31 December 2021 has been found to be 0%, given that the majority of the exposures are in Cyprus.

6.8 Risk of impairment

Measurement of exposures

Financial instruments at fair value through profit or loss ('FVTPL') are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. After the initial recognition, an expected credit loss ('ECL') allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Measurement categories

The Bank classifies its financial assets at amortised cost ('AC'), fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL'). The classification and subsequent measurement of debt financial assets depends on: i) the Bank's business model for managing the related assets portfolio and ii) the cash flow characteristics of the asset ('SPPI').

Business model assessment

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows") or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the financial assets are managed together to achieve a particular business objective and information is provided to management. The Bank's business model assessment determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both and several pieces of information are used to perform this assessment as described in detail in the Published Financial Statements.

Cash flow characteristics and assessment whether contractual cash flows are SPPI

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument upon initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications and changes in the business model

Financial instruments are only reclassified when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets. The Bank does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

There were no reclassifications of the Bank's financial assets during the current year or previous reporting periods

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'),
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value.

Impairment methodology

During the current year, the Bank has adopted all new and revised IFRSs that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2021. The adoption of these new and revised standards and interpretations did not have a material effect on the accounting policies of the Bank.

The Bank uses a forward looking expected credit losses ('ECL') model, requiring judgement, estimates and assumptions in determining the level of ECL.

The ECL model applies to the following financial instruments that are not measured at FVTPL and the Bank assesses at each reporting date the ECL on:

- Bank balances with Central Bank
- Placements with banks
- Loans and advances to customers

- Debt investments that are measured at amortised cost or FVOCI
- Other assets
- Letters of credit
- Financial guarantee contracts issued; and
- Loan commitments issued.

Equity instruments are not subject to impairment assessment.

The Bank's ECL model accounts for the following main parameters: probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and Discount Rate. In accordance with IFRS 9 the Bank applies the three stage approach for impairment, based on changes in credit quality since initial recognition.
ECL measurement reflects an unbiased and probability weighted amount determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank categorises its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:
Stage 1: Financial assets which have not had a significant increase in credit risk since initial recognition are considered to be Stage 1 and 12-month ECL or until contractual maturity, if shorter is recognised.

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised up until contractual maturity but considering expected prepayments, if any.

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Bank defines credit-impaired and default) and lifetime losses are recognised.

POCI: Purchased or originated credit impaired ("POCI") financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition.
At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), unless assets are deemed as POCI. In the event of a significant increase in credit risk since initial recognition, impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).
For off-balance sheet exposures, a credit conversion factor in accordance with CRR / CRD IV classification is applied to determine exposure at default for the off-balance sheet amounts when estimating ECL.
The Bank calculates 12-month ECL and lifetime ECL either on an individual basis or collective basis.

Individually assessed loans
The individual assessment is performed for individually significant stage 3 assets. A risk based approach is used on the selection criteria of the individually assessed population such as NPE or forborne NPE exposures above a certain amount. The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (i.e. the realisable value of the collateral and the operating cash flows of the customer).

Collectively assessed loans
All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/ segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type and customer credit rating.

Significant increase in credit risk for loans and advances to customers
The Bank uses certain criteria to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

Non-performing exposures (Exposures in default)

Exposures that meet the non-performing exposures ('NPE') definition in accordance with the European Banking Authority's ('EBA') technical standards are considered to be in default and for this reason classified under Stage 3 (credit-impaired). The expected credit losses ('ECL') of these credit facilities are calculated on a lifetime basis.

On 31 December 2021, an amount of €476.948 (2020: €325.180) was classified by the Bank as NPE for its on balance sheet exposures. NPEs are defined as all those exposures towards are an obligor, when any of the following events has occurred:

a) the obligor is assessed as unlikely to pay (UTP) 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,
b) the obligor has material credit obligations past due on a continuous basis, more than 90 regulatory days past due
c) a Distressed restructuring resulting in a diminished financial obligation higher than the specified threshold of 1%

In the case of retail exposures, the Bank applies the definition of «Default» at the level of an individual credit facility rather than in relation to the total obligations of the obligor.

Where all on-balance sheet exposures to a retail obligor that are defaulted (i.e. present material credit obligations past-due by more than 90 regulatory days), exceed 20% of all on-balance sheet exposures to that retail obligor, then all exposures to the obligor (on and off balance sheet) shall become non-performing. For purposes of application of the above, the joint accounts are aggregated with the personal accounts.

If the 90 regulatory days past due criterion occurs on a joint material credit obligation of two or more obligors all other joint credit obligations of the same set of obligors and all individual exposures to those obligors should be considered defaulted (for retail exposures materiality should be examined). Exceptions from this rule have been specified in order to account where a joint credit obligation is an immaterial part of the total obligations of an individual obligor. Moreover, the contagious effect of this default should not automatically spread to other joint credit obligations of individual obligors with other individuals or entities that are not involved in the exposure that has initially been defaulted.

If the 90 regulatory days past due criterion occurs on an exposure to an individual obligor the contagious effect of this default should not automatically spread to any joint credit obligations of that obligor with other individuals or entities. Nevertheless, the institution should assess such exposures for possible indications of unlikeliness to pay related to the default of one of the obligors. If, however, all the individual obligors are in defaulted status their joint credit obligations should also be considered defaulted.

Materiality threshold

According to EU Regulation 575/2013 Article 178, reasonable materiality thresholds of credit obligations past due shall be defined by national competent authorities. The Central Bank of Cyprus ('CBC') has issued a Directive on Supervisory Reporting on Forbearance and Non-Performing Exposures of 2020 stating the following materiality thresholds:

a) The sum of all amounts past due owed by the obligor equals:
   i. 100 EUR – for Retail Exposures (please refer to definition as below)
   ii. 500 EUR – for exposures other than retail exposures AND

b) Sum of all amounts past due owed by the obligor equals to 1% of all on-balance-sheet exposures to that obligor

Where definition of default for retail exposures is at the level of an individual credit facility, which is the case for the Bank, the threshold mentioned above should apply at the level of the individual credit facility granted to the obligor and not to all of the on-balance sheet exposures to the obligor.

COVID-19 crisis

In response to the need to address negative economic consequences of COVID-19 pandemic, the European Union (EU) and Member States have introduced a wide range of mitigating measures to support the real economy and the financial sector. The lack of sufficient information on the application of general payment moratoria and the introduction of public guarantees that have been provided not in a uniform way across the EU necessitated additional collection of specific information from the institutions for supervisory purposes, and also called for public disclosure for the purposes of market discipline and transparency for investors and in the interest of the wider public. The EBA covering both aspects, on 2 June 2020 published Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). The guidelines cover the following:

- reporting requirements to monitor the use of payment moratoria and the evolution of the credit quality of the exposures subject to such moratoria in accordance with the GL on moratoria
- disclosure requirements for the exposures subject to the payment moratoria in accordance with the GL on moratoria,
- reporting requirements for the new loans subject to specific public guarantees set up to mitigate the effects of the COVID-19 crisis,
- disclosure requirements for the new loans subject to the specific public guarantees set up to mitigate the effects of COVID-19 crisis, and
- reporting requirements on other forbearance measures applied in response to COVID-19 crisis.

Reporting should be performed on a quarterly basis, with the first reference date of 30 June 2020, and for an expected period of 18 months. Disclosures are included in the Pillar 3 Disclosures report.

EBA/GL/2020/07_F90.01 - Overview of EBA-compliant moratoria (legislative and non-legislative)

2021		Number of obligors		Gross carrying amount										
			Of which: granted		Of which: granted				Residual maturity of moratoria					
						Of which: legislative moratoria	Of which: subject to extended moratoria	Of which: expired	<= 3 months	> 3 2021months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
		0010	0020	0030	0040	0050	0055	0060	0070	0080	0090	0100	0110	0120
0010	**EBA-compliant moratoria loans and advances**	425	425	118.571.712	118.571.712	118.571.712	-	118.571.712	-	-	-	-	-	-
0020	of which: Households				61.626.317	61.626.317	-	61.626.317	-	-	-	-	-	-
0030	of which: Collateralised by residential immovable property				50.604.233	50.604.233	-	50.604.233	-	-	-	-	-	-
0040	of which: Non-financial corporations				56.945.395	56.945.395	-	56.945.395	-	-	-	-	-	-
0050	of which: Small and medium-sized enterprises				56.726.043	56.726.043	-	56.726.043	-	-	-	-	-	-
0060	of which: Collateralised by commercial immovable property				43.003.633	43.003.633	-	43.003.633	-	-	-	-	-	-

2020		Number of obligors		Gross carrying amount											
			Of which: granted		Of which: granted				Residual maturity of moratoria						
						Of which: legislative moratoria	Of which: subject to extended moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
		0010	0020	0030	0040	0050	0055	0060	0070	0080	0090	0100	0110	0120
0010	**EBA-compliant moratoria loans and advances**	448	448	132.931.447	132.931.447	132.931.447	-	-	132.931.447	-	-	-	-	-
0020	of which: Households				66.121.657	66.121.657	-	-	66.121.657	-	-	-	-	-
0030	of which: Collateralised by residential immovable property				53.190.926	53.190.926	-	-	53.190.926	-	-	-	-	-
0040	of which: Non-financial corporations				66.809.789	66.809.789	-	-	66.809.789	-	-	-	-	-
0050	of which: Small and medium-sized enterprises				66.470.168	66.470.168	-	-	66.470.168	-	-	-	-	-
0060	of which: Collateralised by commercial immovable property				50.020.296	50.020.296	-	-	50.020.296	-	-	-	-	-

EBA/GL/2020/07_F91.03 - Loans and advances with expired EBA-compliant moratoria (legislative and non-legislative)

2021		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Maximum amount of the guarantee that can be considered	Gross carrying amount	
			Performing			Non-performing				Performing			Non-performing					
				Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Of which: unlikely to pay that are not past-due or past-due <= 90 days		Inflows to non-performing exposures	
		0010	0020	0030	0040	0050	0060	0070	0080	0090	0100	0110	0120	0130	0140	0150	0160	0170
0010	**Loans and advances with expired EBA-compliant moratoria**	118.571.712	118.408.469	-	4.874.483	163.243	-	163.243	(264.069)	(225.352)	-	(8.928)	(38.717)	-	(38.717)		-	
0020	of which: Households	61.626.317	61.626.317	-	2.111.791	-	-	-	(51.311)	(51.311)	-	(8.503)	-	-	-		-	
0030	of which: Collateralised by residential immovable property	50.604.233	50.604.233	-	2.038.087	-	-	-	(33.642)	(33.642)	-	(7.107)	-	-	-		-	
0040	of which: Non-financial corporations	56.945.395	56.782.152	-	2.762.692	163.243	-	163.243	(212.759)	(174.041)	-	(426)	(38.717)	-	(38.717)		-	
0050	of which: Small and medium-sized enterprises	56.726.043	56.562.800	-	2.762.692	163.243	-	163.243	(201.358)	(162.641)	-	(426)	(38.717)	-	(38.717)		-	
0060	of which: Collateralised by commercial immovable property	43.003.633	43.003.633	-	2.362.781	-	-	-	(74.540)	(74.540)	-	(384)	-	-	-		-	

2020		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Maximum amount of the guarantee that can be considered	Gross carrying amount	
			Performing			Non-performing				Performing			Non-performing					
				Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Of which: unlikely to pay that are not past-due or past-due <= 90 days		Inflows to non-performing exposures	
		0010	0020	0030	0040	0050	0060	0070	0080	0090	0100	0110	0120	0130	0140	0150	0160	0170
0010	**Loans and advances with expired EBA-compliant moratoria**	132.93.,447	132.931.447	-	9.930.876	-	-	-	(669.417)	(669.417)	-	(314.756)	-	-	-			
0020	of which: Households	66.121.657	66.121.657	-	1.708.962	-	-	-	(156.164)	(156.164)	-	(58.204)	-	-	-			
0030	of which: Collateralised by residential immovable property	53.190.926	53.190.926	-	1.669.186	-	-	-	(131.543)	(131.543)	-	(54.259)	-	-	-			
0040	of which: Non-financial corporations	66.809.789	66.809.789	-	8.221.915	-	-	-	(513.252)	(513.252)	-	(256.552)	-	-	-			
0050	of which: Small and medium-sized enterprises	66.470.168	66.470.168	-	8.221.915	-	-	-	(511.341)	(511.341)	-	(256.552)	-	-	-			
0060	of which: Collateralised by commercial immovable property	50.020.296	50.020.296	-	5.354.579	-	-	-	(269.978)	(269.978)	-	(68.270)	-	-	-			

7. MARKET RISK – EU MRA

7.1 Definition of Market Risk

The Bank's Market Risk Management Policy has defined the Market risk as the risk of loss resulting from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in risk factors such as interest rates, foreign exchange rates and equity prices and the risk of loss resulting from changes in earnings generated from assets and liabilities. The development of a policy for market risk management is important to ensure the soundness and fitness of the bank's business. The policy, which outlines the roles and responsibilities for managing the Market Risk arising from the Bank's lending activity, treasury operations and any other third-party relationship, is in-line with the Bank's Risk Appetite Statement.

7.2 Monitoring

BoD approves and periodically reviews the aforementioned Market Risk Management Policy and Risk Appetite Statement. The Risk Committee of the BoD monitors the Market Risk limits during its regular meetings and requests ad hoc reviews whenever deemed necessary including times of market unrest.

The ALCO:
Is responsible to review the implementation of the Market Risk Management Policy
- Ensures compliance with regulatory as well as internal Market Risk limits
- Sets bank-wide risk limits

The Treasury:
- daily monitors and manages the Treasury Portfolios according to the Liquidity Management Policy, limits set by ALCO as well as the Treasury Risk Limits Policy
- manages the Risk of interest rate mismatch and liquidity

The Risk Management Function:
- Develops procedures for identifying, measuring, monitoring and controlling market risk in-line with the Risk Appetite Statement of the Bank.
- at a minimum ensures that the market risk policy is applied and works as intended,
- that effective systems are in place to operate the ongoing administration and monitoring of the various market risk-bearing portfolios and exposures of institutions, including for identifying and managing troubled credits and for making adequate value adjustments and provisions
- and the quality and diversification of the investable assets in the Treasury Portfolios.

The Internal Audit:
- Evaluates and reports on the adequacy and effectiveness of all Market Risk policy practices.

7.3 Foreign Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Bank's measurement currency. The Bank is exposed to foreign exchange risk arising from various currency exposures. Exchange rate fluctuations are managed by the Bank's Treasury department and monitored by the Risk Management Function. The Bank's foreign exchange exposure is communicated to senior management on a monthly basis and to the Board of Directors through its Risk Committee on a quarterly basis.

As the Bank broadly maintains a matching of assets and liabilities in other currencies, there are no material open positions in any foreign currency, and consequently the impact on net loss and equity of reasonably possible changes in exchange rates is not expected to be significant.

In order to limit the Foreign Exchange Risk, Position Limits (that place a nominal euro cap on a given position) have been in place.
- Total foreign currency exposure not to exceed 5% of total assets, excluding fixed assets.

- CBC requirement:

Except with the prior approval of the Central Bank of Cyprus,

i. the overall net foreign exchange position at the close of any business day ("overnight position") shall not exceed 6% of the reporting bank's capital during a business day ("intra-day position") shall not exceed 8% of the reporting bank's capital base

ii. Notwithstanding the provisions of (i) above, the net open overnight position in any one currency, with the exception of the Euro, may not exceed 3% of the reporting bank's capital base, as calculated for the purposes of the capital adequacy return, while, the net open intra-day position in any one currency, with the exception of the Euro, may not exceed 5% of the reporting bank's capital base. In Euro, both the net open overnight position and the net open intra-day position may not exceed 6% of the reporting bank's capital base.

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

Table 2021: Foreign currency exposure

Currency	**Spot Position**		**Forward Position**		**Net Open Foreign Currency Position**	
	Assets	Liabilities	Assets	Liabilities	In foreign currency	In EURO
GBP	2.528.908	2.509.676	-	-	19.232	22.931
USD	1.039.398	1.025.598	-	-	13.800	12.204
JPY	2.158.808	-	-	-	2.159	16.551
CHF	20.620	-	-	-	20.620	19.948
SEK	202.244	-	-	-	202.244	19.730
PLN	510.283	-	-	-	510.283	110.965
AUD	295	-	-	-	295	189
HUF	43.500	-	-	-	43.500	118
			Total of net Long positions			202.636
			Total of net Short positions			-
			Overall net foreign exchange position			**202.636**

Table 2020: Foreign currency exposure

Currency	**Spot Position**		**Forward Position**		**Net Open Foreign Currency Position**	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
GBP	2.003.115	1.983.887	-	-	19.228	21.273
USD	387.903	371.307	-	-	16.596	13.536
JPY	1.900.000	90.025	-	-	1.809.975	14.279
CHF	18.731	-	-	-	18.731	17.325
SEK	99.717	-	-	-	99.717	9.950
PLN	514.755	-	-	-	514.755	112.924
AUD	295	-	-	-	295	186
			Total of net Long positions			189.473
			Total of net Short positions			-
			Overall net foreign exchange position			**189.473**

7.4 Interest Rate Risk

Interest rate risk is the risk that (i) the fair value of future cash flows of a financial instrument ('fair value interest rate risk') and (ii) the actual future cash flows of a financial instrument will fluctuate ('cash flow interest rate risk') because of changes in market interest rates. Interest rate risk in the banking book is the risk that arises from timing differences in the maturity (for fixed rate instruments) and repricing (for floating rate instruments) of the Bank's assets, liabilities and off-balance sheet positions.

Interest rate risk is measured, monitored and controlled using interest rate sensitivity gap analysis estimating the difference between assets and liabilities for which interest rates are repriced at each time band. In addition, the lending products of the Bank (other than certain short-term exposures) are priced with floating interest rates limiting exposure to interest rate risk.
The Bank is primarily exposed to cash flow interest rate risk since the majority of its interest-bearing financial instruments are variable.

IRRBB: Net Interest Income/Expense ¬ The 12-month net interest adverse income change to a 100bps positive or negative fluctuation of interest rates not to exceed 5% of the Bank's total capital. ¬ The 12-month net interest adverse income change to a 100bps positive or negative fluctuation of interest rates not to exceed 20% of the budgeted net interest income of the static Balance Sheet.

A parallel increase in market interest rates across all currencies within a 12 month period by 100 basis points would result in a decrease in the profit before tax by €18.668 (2020: increase in the loss before tax €97.135). A parallel decrease in market interest rates across all currencies within a 12 month period by 100 basis points would result in an increase in profit after tax by €18.668 (2020: decrease in the loss before tax €97.135). The majority of the impact, which is minimal, is due to the EUR denominated assets and liabilities since they form the majority of the Balance sheet.

7.5 Price Risk

The risk that the value of financial instruments will fluctuate as a result of changes in 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.

The management of the HTC and HTCS portfolios should be in line with the Risk Appetite Statement and the Risk Management Function desk should monitor and report any deviation from the approved statements.

- The Bank must not operate any trading book without specific Board Approval
- No investment in equities should take place without specific Board Approval

The Bank is not exposed to commodity price risk.

Securities that are held under the HTC portfolio are measured at Amortized cost. For this reason, the HTC portfolio is not consider to bear Price Change Risk. However, the HTC portfolio should always be in line with the Treasury Risk Limits Policy, as set by ALCO and approved by the BoD. The set limits which are approved by ALCO help Treasury Desk to achieve a diversified portfolio and limit the Credit Risk.

The Bank is exposed to securities price risk because of investments held by the Bank and classified at fair value through other comprehensive income, i.e. the HTCS portfolio. To manage its price risk the Bank diversifies its portfolio and the Risk Management Department closely monitors the policies in place.

The Bank maintains a Hold to Collect and Sell ('HTCS') portfolio, amounting to 8% of the total investments portfolio held by the Treasury department. The 95% 1-year Value at Risk ('VaR') of the HTCS portfolio amounts to €7.521 as at 31 December 2021 (2020: €16.498), and as a result, the market risk of the HTCS portfolio is considered low.

The Bank is also exposed to equity securities price risk because of investments held by the Bank and classified as FVOCI (unlisted). The Bank is not exposed to commodity price risk. No sensitivity analysis is presented as any reasonable change in the fair value of the equity instruments would not result in a material impact on post-tax profit in 2021.

7.6 Capital Requirements

The Bank has adopted the Standardised Approach for the calculation of the minimum capital requirements for market risk, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models.

8. LIQUIDITY RISK

8.1 Definition of Liquidity Risk

The Bank defines liquidity risk as the risk of the Bank is unable to fully or promptly meet current and future payment obligations as and when they fall due. 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.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The Bank has a Liquidity Management Policy and a Treasury Risks Limit Policy in place which are approved by the BoD and reviewed at least annually. Early Warning Levels for regulatory liquidity ratios are also reflected in the Bank's Recovery Plan.

8.2 Monitoring process

The Bank has developed monitoring tools for treasury operations in order to manage, amongst others, liquidity risk and cash flows and will continue to improve such tools as its operations become more complex. In addition, the Bank has set a limit structure for treasury placements that promotes diversity of exposures and to assist in monitoring the Bank's risk profile against its risk appetite.

The BoD reviews and approves the Liquidity Management Policy, at least annually, ensuring that the management has the capacity and resources to effectively implement the Bank's liquidity strategy. The Risk Committee of the BoD monitors the Bank's liquidity position during its regular meetings and requests ad hoc reviews whenever deemed necessary including times of liquidity squeeze and/or market unrest.

The responsibility for effective and prudent liquidity management is delegated to ALCO. ALCO has the responsibility to oversee the implementation of the Liquidity Management Policy and to ensure compliance with regulatory and internal liquidity ratios and benchmarks. Nevertheless, the ultimate responsibility remains with the BoD.

Treasury has the responsibility for the daily monitoring and management of liquidity, in line with the Liquidity Management Policy, the ALCO guidelines, and the Treasury Risk Limits Policy. Treasury closely follows market developments, monitors the performance of the Bank's liquidity portfolios, and proposes liquidity strategies to ALCO. The Treasury department monitors cash flows and highly liquid assets on a daily basis, in addition to the supervisory liquidity ratios, to ensure the uninterrupted operation of the Bank's activities. The Financial Control department submits to CBC a weekly report on liquidity position.

The Risk Management Function monitors compliance with such internal and regulatory limits including the Risk Appetite statement limits and enforces an adequate risk framework in order to ensure the quality and diversification of liquid assets. In addition, RMF develops stress test guidelines to facility effective stress test analysis. Stress tests are performed as part of ILAAP submitted to the CBC on an annual basis.

Internal Audit evaluates and reports on the adequacy and effectiveness of all liquidity procedures, policies, and practices.

8.3 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 31-12-2021 as measured through key regulatory ratios is set below:

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

Regulatory Liquidity Ratios	Regulatory Requirement	Position as at 31 December 2021
LCR	≥100%	343%
NSFR	≥100%	149%

Table 1: Bank's Regulatory Liquidity Position as at 31 Dec 2021

Note 32 of the published Financial Statements analyses the main sources of funding.

8.4 Disclosures (tables and templates)

The table below shows a quantitative analysis of LCR which complements Article 435(1f) of CRR in accordance with EBA Guidelines on Liquidity Risk management and LCR Disclosure (i.e. EBA/GL/2017/01). In accordance with these Guidelines, the Bank shall disclose the LCR disclosure template that is presented below. However, as the Bank is neither identified as a Global systemically important institution ("G-SII") nor as Other systemically important institution ("O-SII"), then the Bank discloses in this Report solely the value of liquidity buffer, total net cash outflows and LCR%, based on the year end results as at 31 December 2021.

	Value (€) / Percentage (%)	Value (€) / Percentage (%)
Liquidity buffer	**93.273.244**	**53.647.626**
Net liquidity outflow	**27.155,173**	**18.622.667**
Liquidity coverage ratio (%)	**343%**	**288%**
Denominator calculations		
Total Outflows	37.369.556	26.322.892
Reduction for inflows subject to 75% Cap	10.214.383	7.700.225
Net liquidity outflow	**27.155.173**	**18.622.667**

Table EU LIQA: Liquidity Coverage Ratio breakdown

The Bank monitors the NSFR, which also stems from CRR, and was expected to be officially introduced on 1 January 2018. NSFR has been developed to provide a sustainable maturity structure of assets and liabilities. It calculates the proportion of available stable funding via the liabilities over required stable funding for the assets. The minimum requirement of NSFR is 100%, and must be calculated as per CRR II requirements on a quarterly basis. NSFR became a regulatory indicator when Capital Requirements Regulation 2 (CRR II) was enforced with the limit set at 100% in June 2021. At 31st December 2021 the Bank's NSFR, stood at 149% based on CRR II. Before June 2021 the ratio was calculated using Basel III guidance as a proxy. Therefore, the table below presents the 31 December 2021 regulatory indicator based on CRR II.

Table: Net Stable Funding Ratio breakdown

31/12/2021	Unweighted value by residual maturity			Weighted value
	< 6 months	≥ 6 months to < 1 year	≥ 1 year	
Available Stable Funding Amounts				
Capital items and instruments	-	-	**37.489.005**	**37.489.005**
Own funds			37.489.005	37.489.005
Other capital instruments	-	-	-	-
Retail deposits	**258.298.782**	**19.713.823**	**10.106.116**	**268.998.248**
Stable deposits	160.824.311	12.791.432	6.945.319	171.880.275
Less stable deposits	97.474.471	6.922.391	3.160.797	97.117.973
Financial customers and central banks	**22.728.083**	**9.828.014**	**10.455.486**	**23.472.605**
Liabilities provided by the ECB or the central bank of a Member State	-	4.650.000	8.481.981	10.806.981
Liabilities provided by financial customers	22.728.083	5.178.014	1.973.505	12.665.624
Other non-financial customers (except central banks)	**39.344.091**	**6.121.770**	**5.616.000**	**28.348.931**
Liabilities provided by the central government of a Member State or a third country	624.709	350.980	-	487.845
Liabilities provided by non-financial corporate customers	38.719.382	5.770.790	5.616.000	27.861.086
Total available stable funding (ASF)				**358.308.788**
Required Stable Funding Amounts				
Total high-quality liquid assets (HQLA)				**5.734.214**
Securities other than liquid assets	**300.499**	**565.066**	**4.301.256**	**4.088.850**
Non- HQLA securities and exchange traded equities	300.499	565.066	4.301.256	4.088.850
Loans	**19.148.619**	**18.488.661**	**262.348.517**	**215.873.328**
Other loans and advances to financial customers	5.918.631	-	202	592.065
Loans to non-financial customers other than central banks where those loans are assigned a risk weight of 35% or less	4.075.221	4.346.600	117.870.648	80.826.832
Other loans to non-financial customers other than central banks	9.154.767	14.142.061	144.477.667	134.454.431
Other assets	**20.660**	**27.973**	**12.842.345**	**12.890.978**
Off-balance sheet items	**14.889.869**	**1.617.702**	**25.333.781**	**2.207.849**
Total RSF				**240.795.219**
Net Stable Funding Ratio (%)				**149%**

9. OPERATIONAL RISK – EU ORA

9.1 Definition of Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from a wide range of factors relating to inadequate or failed internal processes, people and systems, the premises infrastructure, the health and safety or from external events such as those resulting from non-compliance of the Bank with relevant Laws and Regulations, including outsourcing to third parties. This definition includes legal, conduct and reputational risk.

Examples of risks monitored as part of operational risk are:

- Human Resources Risk: Due to the relatively small size of the Bank, the Bank is exposed in certain cases to key personnel risk
- Legal and Compliance Risk: Includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions or non-compliance with laws and regulation, as well as litigation cases against the Bank.
- Reputational Risk: Is a risk of loss resulting from damages to an entity's reputation, in lost revenue, increased operating, capital or regulatory costs, or reduction of shareholder value, consequent to an adverse or potentially criminal event if the Bank is not found guilty.
- Information Security and Information Technology (IT) Risk: Is a risk of loss resulting from the loss of confidentiality, the integrity and the availability of information from failures of systems.
- Business Continuity Risks: Refer to risks that may put the Bank in inability to provide continuous services and products at acceptable predefined levels and time frames, due to the occurrence of a disruptive event.

9.2 Management of the Operational Risk

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 has in place an Operational Risk Management Policy and the main roles and responsibilities are outlined below:

The BoD:

- Approves the relevant policy and is made aware through the Board Risk Committee, of the major aspects of the Bank's operational risks as a distinct category to be managed for the safety and the soundness of the Bank.

The BoD Risk Committee:

- Periodically reviews the relevant policy and risk appetite
- Provides clear guidance to senior management regarding the policy's principles
- Responsible for monitoring and recommending appropriate mitigation strategies for managing key operational risks and issues
- Establish a strong internal control culture, promoting sound risk management practices and ensuring quick responses to changing conditions
- Ensures that recommended mitigation strategies are appropriately executed by the RMF
- Regularly reports operational risk losses and establishes written procedures for appropriate mitigation and control measures

The Compliance Function ensure that all relevant and external operational risk regulatory requirements are met.

Internal Audit Division Independently reviews the Bank's operational risk management policy and ensure that it is implemented.

The Risk Management Function 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.

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 ICT and Security Risk Management 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 2021.

9.3 Monitoring (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 internal 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.

The Bank's annual Risk Control Self-Assessment (RCSA) report is performed 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	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.

The RMF should:
- Maintain historical internal and external loss data
- Address the vulnerability of the Unit to the identified risks
- Review on a regular basis the continuing relevance of identified operational risks, adding or deleting risks as appropriate.

9.4 Business Resilience and Continuity Risk Management

Business continuity plan ("BCP") 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.

The Bank has in a place BCP which was deployed successfully without any major disruptions in operations.

9.5 Capital Requirements

The Bank uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a specific percentage of 15% of the average over three years of the relevant indicator (sum of a list of various elements related to interest and other income) as set out in Article 316 of CRR. RWA and capital requirements of operational risk can be found in Table - EU OV1 – Overview of total risk exposure amounts.

10. REMUNERATION

10.1 Remuneration Policy – EU REMA

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.

10.2 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, procedures, and regulations.

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.

4. 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.

5. 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.

6. 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.

7. 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.

- The allocation of the variable remuneration components takes into account all types of current and future risks, through the implementation of a three-step risk alignment process, including the implementation of the following three processes:
    - Performance and risk measurement process: The process ensures that variable remuneration for all staff, including identified staff, is aligned to all risks and the performance of the Bank, the business unit/department and the individual. This is achieved by balancing qualitative and quantitative criteria, as well as absolute and relative criteria set. Examples of qualitative criteria include the achievement of strategic targets, customer satisfaction, adherence to risk management policy, compliance with internal and external rules, leadership, team work, creativity, motivation and cooperation with other departments, internal control and corporate functions.
    - Award process: The award process is the process through which a Bank-wide bonus pool is set and calculated, taking into consideration all current risks, expected losses, estimated unexpected losses and stressed conditions associated with the Bank's activities. Specifically, the Bank takes into account the ratio between variable and fixed components of total remuneration applicable to identified staff, overall performance and risk criteria defined for the Bank, control objectives, and the financial situation of the Bank,

including its capital base and liquidity. The size of the Bank-wide bonus pool is also dependent on the financial results of the Bank. During the award process the following stages exist:

- Awarding variable remuneration after the end of the accrual period, which is at least one year.
- Determining the actual amount of award for each individual by calculating the achievement of performance-related objectives of the individual staff member, the business unit/department and the Bank as a whole, as well as taking into consideration the risk adjustments required to be made (e.g. based on the capital base and liquidity of the Bank).
- Adjusting remuneration for potential adverse developments in the future (ex-ante risk adjustment), at the level of the business unit/department or at the level of organisational substructures, using both qualitative (e.g. compliance breaches, risk limit breaches and internal control indicators) and quantitative criteria (e.g. economic capital, profit, return on risk-weighted assets and return on allocated equity, the cost and quantity of the capital required for the risks of the Bank's activities, the cost and quantity of liquidity risk assumed in the course of business, indirect liquidity costs).

- Pay-out process: According to the pay-out process that the Bank will prepare, for identified staff the Bank pays variable remuneration partly upfront and partly deferred.

8. 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. The table below summarizes the responsibilities of each corporate function / body in the process of determining remuneration:

Remuneration	BoD Members		Identified staff *(other than Executive Members)*	Heads of Internal Control Functions	All other staff
	Non-Executive	Executive			
Suggested by:	Remuneration & Nominations Committee (R&NC)	R&NC	Division Heads *(excluding their own remuneration)* & Manager Human Resources	R&NC	Division / Departmental Heads & Human Resources Manager
Approved by:	Shareholders at the Annual General Meeting (AGM)	BoD	Senior Management	BoD	Senior Management

9. 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.

10. 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.

11. 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.

12. 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.

13. Establishment of a Remuneration & Nominations Committee

The Policy calls for the establishment of a Remuneration & Nominations Committee, which:

- Is composed solely of non-executive members of the BoD.
- Includes a member of the Risk Committee
- Majority of members should be independent
- The chairman should be independent
- Consists of members who have knowledge, skills and experience with regard to the mechanisms for aligning the remuneration structure to the Bank's risk profiles and capital structure.
- Has access to all data and information concerning the decision-making process of the supervisory function on the remuneration policies and practices design, implementation, oversight and review.
- Has unlimited access to all relevant information and data from independent control functions

10.3 Fees and Emoluments of Members of the Board of Directors and Other Identified Staff

The tables below present fees and emoluments towards members of the Board of Directors and key management personnel for the period during which they were members of the Board of Directors and assigned key management personnel, including those who resigned during the year:

10.3.1 Template - EU REM1 - Remuneration awarded for the financial year

2021			a MB Supervisory function	b MB Management function	C Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff	8	2	3	19
2		Total fixed remuneration	133.346	359.148	239.556	927.869
3		Of which: cash-based	133.346	359.148	239.556	927.869
4		(Not applicable in the EU)	-	-	-	-
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)	-	-	-	-
7		Of which: other forms	-	-	-	-
8		(Not applicable in the EU)	-	-	-	-
9	Variable remuneration	Number of identified staff	8	2	3	19
10		Total variable remuneration	-	-	-	310
11		Of which: cash-based	-	-	-	310
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration**		**133.346**	**359.148**	**239.556**	**927.869**

2020			a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff	9	2	2	18
2		Total fixed remuneration	147.249	337.828	164.826	904.437
3		Of which: cash-based	147.249	337.828	164.826	904.437
4		(Not applicable in the EU)	-	-	-	-
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)	-	-	-	-
7		Of which: other forms	-	-	-	-
8		(Not applicable in the EU)	-	-	-	-
9	Variable remuneration	Number of identified staff	9	2	2	18
10		Total variable remuneration	-	-	-	4.775
11		Of which: cash-based	-	-	-	4.775
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration**		**147.249**	**337.828**	**164.826**	**909.212**

10.3.2 Template - EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

2021		a	b	c	d	E	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										32
2	Of which: members of the MB	8	2	10							
3	Of which: other senior management				-	-	-	3	-	-	
4	Of which: other identified staff				-	8	-	7	4	-	
5	Total remuneration of identified staff	133.346	359.148	492.494	-	380.860	-	577.715	209.160	-	
6	Of which: variable remuneration	-	-	-	-	-	-	310		-	
7	Of which: fixed remuneration	133.346	359.148	492.494	-	380.860	-	577.405	209.160	-	

2020		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										31
2	Of which: members of the MB	9	2	11							
3	Of which: other senior management				-	-	-	2		-	
4	Of which: other identified staff				-	8	-	6	4	-	
5	Total remuneration of identified staff	147.249	337.828	485.077	-	358.992	-	474.842	240.204	-	
6	Of which: variable remuneration	-	-	-	-	-	-	500	4.275	-	
7	Of which: fixed remuneration	147.249	337.828	485.077	-	358.992	-	474.342	235.929	-	

11. LEVERAGE RATIO

11.1 Definition of Leverage ratio EBA/2016/200

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.

11.2 Monitoring

The 'Risk of excessive leverage', effectively means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

This ratio must be closely monitored in order to manage this risk of excessive leverage. The ratio is affected for example from disposal of assets (i.e loans), from increases in provisions etc. The Bank's management of the risk of the excessive leverage (including changes that the Bank may need to perform to its business plan) is explained in a detailed and exhaustive manner in the ICAAP, ILAAP and its Recovery Plan.

The Bank's leverage ratio for year end 2021 is significantly above regulatory minimum of 3%. The main reasons for the total exposure increase are due to the increase in loans and advances and as a result of the increase in cash and balances with Central Banks.

11.3 Disclosure

Key Leverage Metrics	**a**	**b**
	31 Dec 2021	**31 Dec 2020**
	€	**€**
Leverage ratio		
Total exposure measure	446.749.999	376.990.196
Leverage ratio (%)	8,39%	9,09%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
Additional own funds requirements to address the risk of excessive leverage (%)	-	-
of which: to be made up of CET1 capital (percentage points)	-	-
Total SREP leverage ratio requirements (%)	3,00%	3,00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
Leverage ratio buffer requirement (%)	-	-
Overall leverage ratio requirement (%)	3,00%	3,00%

12. ASSET ENCUMBRANCE

Encumbered and unencumbered assets analysed by asset type

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, is no longer available to the Bank for further collateral or liquidity requirements. An asset is classified as unencumbered if it has not been pledged as collateral against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can be potentially pledged and those that are not readily available to be pledged. Relevant analysis can be found in Note 32 of the published Annual Financial Report for 2021.

13. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

13.1 Basis of preparation of the Financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union ('EU'), and the requirements of the Cyprus Companies Law, Cap.113.

The financial statements are presented in Euro (€) and have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

Going concern

The Bank's financial statements have been prepared on a going concern basis following the assessment performed by the Board of Directors and Management on the Bank's ability to continue as a going concern for a period of at least twelve months from the date of approval and issuance of these financial statements.

13.2 Adoption of new and revised IFRSs

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. These are listed below:

a) Adopted by the EU

Standard / Interpretation	**Effective for annual periods beginning on or after**
Amendments to IAS 16 - *Proceeds Before Intended Use*	1 January 2022
Amendments to IFRS 3 - *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 37- *Cost of Fulfilling a Contract*	1 January 2022
Annual improvements to IFRS Standards 2018-2020 Cycle	1 January 2022
Amendments to IAS 8 - *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 - *Disclosure of Accounting Policies*	1 January 2023

b) Not yet adopted by the EU

Standard / Interpretation	**Effective for annual periods beginning on or after**
Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current*	1 January 2023
Amendments to IAS 12 - *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

The Bank is in the process of evaluating the effect that the adoption of the above standards will have on the financial statements of the Bank and as of the date of issue of these financial statements the impact of the amendments is not known. The Bank does not intend to early adopt any of them.

14. APPENDICES

14.1 Glossary

ALCO	Assets and Liabilities Committee
ALMM	Additional Liquidity Monitoring Metrics
Bank	Ancoria Bank
BIA	Basic Indicator Approach
BoD or Board	Board of Directors
CBC	Central Bank of Cyprus
CCB	Capital Conservation Buffer
CCyB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1
COREP	Common Reporting Framework
CRD IV	Capital Requirements Directive 2013/36/EU
CRR	Capital Requirements Regulation (EU) No. 575/2013
CSE	Cyprus Stock Exchange
EBA	European Banking Authority
ECB	European Central Bank
HTC	Held to Collect
HTCS	Held to Collect and Sell
IAF	Internal Audit Function
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk Banking Book
ICT	Information and Communication Technology
IT	Information Technology
LCR	Liquidity Coverage Ratios
LR	Leverage Ratio
NPE	Non-Performing Exposure
NSFR	Net Stable Funding ratio
RAF	Risk Appetite Framework
Bod RC	Risk Committee
RMF	Risk Management Function
RCSA	Risk Control Self-Assessments
SREP	Supervisory Review & Evaluation Process

14.2 Information flow on risk to 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/ Quarterly
2	Risk Appetite Statement Monitoring	RMF	ALCO/RC	Monthly/Quarterly
3	Quarterly Risk Management Report	RMF	RC	Quarterly
4	Quarterly ICT and Security Risk Management 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 ICT and Security Risk Management 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

14.3 References to EBA guidelines and mapping to Pillar III

Templates	Compliance Reference	Section
EU KM1	Overview of risk weighted exposure amounts	Section 3.5
EU OV1	Overview of risk weighted exposure amounts	Section 5
EU OVC	ICAAP information	Section 3.4
EU OVA	Institution risk management approach	Section 3.1
EU OVB	Disclosure on governance arrangements	Section 2.1
EU CC1	Composition of regulatory own funds	Section 4.2
EU CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements	Section 4.2
EU LIQA	Liquidity risk management	Section 8.4
EU CRA	General qualitative information about credit risk	Section 6
EU MRA	Qualitative disclosure requirements related to market risk	Section 7
EU ORA	Qualitative information on operational risk	Section 9
EU REMA	Remuneration policy	Section 10.1
EU REM1	Remuneration awarded for the financial year	Section 10.3
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Not applicable
EU REM3	Deferred remuneration	Not applicable
EU REM4	Remuneration of 1 million EUR or more per year	Not applicable
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Section 10.3
F90.01	EBA/GL/2020/07_Overview of EBA-compliant moratoria (legislative and non-legislative)	Section 6.8
F91.03	EBA/GL/2020/07_Loans and advances with expired EBA-compliant moratoria (legislative and non-legislative)	Section 6.8
EU CRD	External ratings of each nominated ECAIs	Section 6.5

14.4 References to CRR articles

CRR Ref.	Title	Compliance Reference (Document Sections)
General principles		
Article 431	Requirements to publish Pillar III disclosures requirements	Publication on Bank's website.
Article 432	Non-material, proprietary or confidential information based on EBA Guidelines	Introduction - Verification
Article 433	Frequency of disclosure and publication in conjunction with the date of publication of the financial statements	Introduction – Basel III framework
Article 434	Means of disclosures at least in one appropriate medium	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	Requirements regarding Own funds resources	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 and impairment	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 ratio	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