ANCORIA BANK

banking redefined

CONSOLIDATED PILLAR 3 DISCLOSURES 2022

Contents

1. INTRODUCTION

1.1. Corporate Information

This document presents the Pillar 3 disclosure requirements of Ancoria Investments Plc (the "Holding Company") and Ancoria Bank Limited (the "Bank" or the "Subsidiary") together referred as the "Group" as at 31 December 2022. Given that the only operations of the Group are the operations of Ancoria Bank, the Pillar 3 report of the Group is dependent solely on the performance of the Bank's operations. Therefore, references will be made to the Bank's operations and governance arrangements, whereas figures will be shown at a Group level. It is noted that the Board of Directors of the Subsidiary, assisted by the Risk Committee and the Audit Committee of the Subsidiary, has overall responsibility for the establishment and oversight of the Group's risk management framework and systems of internal controls.

Principal activity

The principal activity of the Group which remains unchanged from the previous year, is the provision of banking services through its Subsidiary company, Ancoria Bank Limited, on the basis of the licence granted by the Central Bank of Cyprus ('CBC').

Ancoria Bank Limited is a relatively newly established Cyprus bank, licensed and supervised by the Central Bank of Cyprus. 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 Subsidiary filed an application with the Central Bank of Cyprus for a banking licence to enable it 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 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 and investments 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.

Changes in group structure

There were no changes in the group structure that the Bank is part of during the year ended 31 December 2022.

1.3. Basel III Regulatory Framework, CRR and CRD

The Basel III Framework, which is further analysed in section 3.4 below, comprises of three Pillars:

Pillar 1.

Sets the minimum regulatory capital requirements the Bank must adhere to cover the credit risk, the market risk and the operational risk, including calculation of RWAs and relevant computation methodology.

Pillar 2.

Includes the Internal self-assessment and the Supervisory Review and Evaluation process (SREP) which assesses the internal capital and liquidity adequacy processes and whether additional capital or liquidity is required over and above the Pillar I.

Pillar 3.
Covers 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.

The EU Regulation 575/2013 (the “CRR”) and the Directive (EU) 2013/36 (the “CRD”) of the European Parliament and of the Council of 26 June 2013, transposed the capital, liquidity and leverage standards of Basel III into the European Union’s legal framework.

This document represents both quantitative and qualitative disclosures for the year ended 31 December 2022, in accordance with the requirements of article 433a of Part Eight of the CRR and the CRD, as amended by Regulation (EU) 2019/876 (the “CRR II”) and Directive (EU) 2019/878 (the “CRD V”), and amending Regulation (EU) 2020/873 on certain adjustments in response to the COVID-19 pandemic, respectively. Relevant European Banking Authority (“EBA”) Guidelines (EBA/ITS/2020/04), and the corresponding Commission Implementing Regulation EU (2021/637), were adopted where applicable.

1.4. Materiality

The Group 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 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 Group’s capital position and risk profile.

The Group 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 Amending Regulation (EU) 2019/876 known as CRR2. CRR2 which is an amendment to Regulation (EU) 575/2013 and defines proportionality as this is reflected in Part Eight, 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’. Based on CRR2, the Group is categorized under institution type “Other Institutions (Not Listed)” and Pillar 3 Disclosures have been prepared on this basis.

For the preparation of these Disclosures, the Bank has adopted the European Banking Authority (EBA) Guidelines on Pillar 3 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.

[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)

1.5. Verification, frequency and publication

The Bank's Risk Management Function ("RMF") has an oversight of the framework and process followed by the Group for the preparation of Pillar 3 Disclosures for 2022. The document is reviewed by the Bank's Audit and Risk Committees and approved by the Board of Directors of both the Bank and the Holding Company prior to being publicly available. The Report is published annually on the Bank's website (https://www.ancoriabank.com/pillar-3-disclosures/), in conjunction with the Bank's Annual Financial Report, as per regulatory guidelines. Comparatives presented in the report are restated and indicated in the respective sections, where deemed necessary, to reflect any changes in the presentation of the current year.

1.6. Attestation

The Boards of Directors of the Bank and the Holding Company are responsible for reviewing the effectiveness of the Bank's/Group'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 Group, through its Subsidiary, adopts formal policies to comply with the disclosure requirements laid down in Part Eight of the CRR, and puts in place and maintains internal processes, systems and controls to verify that the disclosures are appropriate and in compliance with the requirements.

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

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

On behalf of the Boards of Directors

Bo Sievert Larsson

Chairman of the Board of Ancoria Investments Plc and Non-Executive Director of Ancoria Bank Limited

06 July 2023

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 Group through its Subsidiary sets policies and procedures in order to mitigate, control, accept or transfer these risks according to the Group/Bank's risk appetite. The Risk Management Function ('RMF') is responsible for the monitoring and adherence to the 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 exposures to risks are contained within the limits set. The Group through its Subsidiary 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 assist the Board of Directors (the "**Board**" or "BoD") in fulfilling its responsibilities.

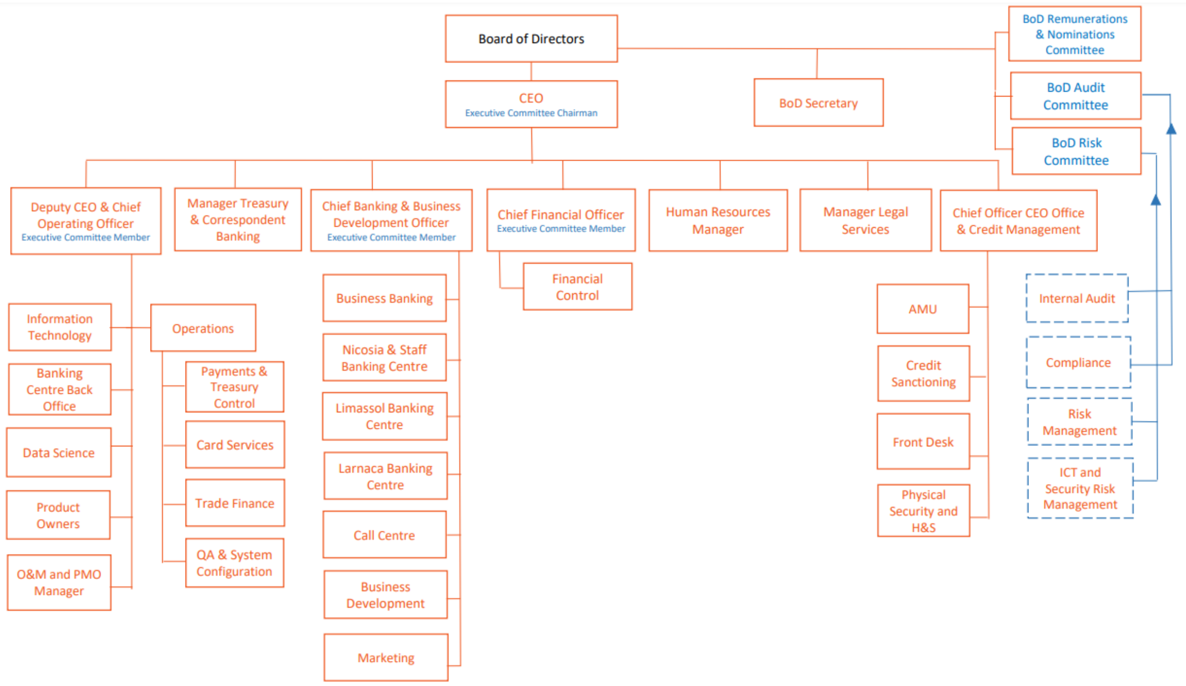

Figure 1: Governance

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 Board of the Bank through its committees and are independent from operational activities. Heads of internal control functions are appointed and removed by the Board of the Bank as also indicated in their role descriptions.

Internal control functions have direct access to the Board of the Bank 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.

Qualifications of Members of the Board include degrees in economics, finance/accounting, law, computer science and information systems, with a number of them also holding a professional qualification relating to financial matters. The members of the Board have collective international and/or local expertise and experience in investment/international/corporate/retail banking and arrears management. They also share skills related to risk, compliance, finance/audit, strategy, corporate governance, leadership, policy development, technology and digital transformation.

2.2. Board of Directors

The following table shows the number of directorships the directors of the Group's board held, including the directorship position held in the Group's Board of Directors in 2022. 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 2022 shown in the table below:

Name	Position held with Ancoria Investments Plc	Directorships – Executive	Directorships – Non-Executive
Bo Sievert Larsson	Chairman	-	3
Tasos Anastasi	Director	1	1
Charalambos Panayiotou	Director	-	3
Charidemos Theocharides	Director	1	2

The following table shows the number of directorships the directors of the board of the Bank held, including the directorship position held in the Bank's Board of Directors in 2022. 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 2022 shown in the table below includes retired or resigned Directors who retired or resigned during the year 2022:

Name	Position held with Ancoria Bank	Directorships – Executive	Directorships – Non-Executive
Dr. Andreas C. Kritiotis	Chairman - Non-executive Independent	-	2
Charalambos Panayiotou	Vice-Chairman - Non-Executive	-	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
Alexandra Spyrou	Non-executive Independent	-	3
Ioannis Loizou	Executive	1	2

Nicolas Prentzas	Executive	1	-

- Ms. Chloi Kyprianou Bohm resigned from her position on 7 September 2022.
- The Board Credit Approval Committee was abolished on 13 September 2022 and its role was transferred to the Board of Directors.
- There were no other significant changes in the composition or distribution of responsibilities of the Board of Directors during the year ended 31 December 2022.
- During 2022 the Board of Directors met 21 times (December 2021: 13 times) in its efforts to effectively discharge its duties while the Board of Directors Committees convened as follows:
  - Audit Committee – 9 times (December 2021: 14 times)
  - Risk Committee – 12 times (December 2021: 9 times)
  - Remunerations and Nominations Committee – 6 times (December 2021: 6 times)

2.3. Board of Directors Declaration

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

The Group has adequate systems to generate risk data for regulatory reporting purposes. In addition, the Group has in place a business continuity management procedure, with identified critical functions for business continuity and disaster recovery purposes which is annually reviewed. The Group 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 is monitored monthly through ALCO and at least quarterly by the Board of Directors.

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

2.4. Board Committees

It is noted that Board Committees are formed at Bank level. The Bank has established the following Board Committees:

Audit Committee

During 2022 the Committee has convened 9 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 the 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 Board;
- The carrying out of a self-assessment and reporting its conclusions and recommendations for improvements and changes to the Board;
- The monitoring of the establishment of accounting policies and practices.

Remunerations and Nominations Committee

During 2022 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 by 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 2022 the Committee has convened 12 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 and 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 submits them to the Board of Directors;
- Reviews and approves the budgets of the risk management and information security functions, ensuring that they are sufficiently flexible to adapt to variations in response to development;
- Conducts a self-assessment and reports 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 Remuneration and Nominations Committee identifies, evaluates and recommends for approval to the Board candidates to be appointed as Directors. The Remuneration and Nominations Committee of the Board of Directors of the Bank engages a broad set of qualities and competencies 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

The Bank, as regards to the Board's composition, embraces diversity and strongly believes that it brings benefits for the customers, staff and other bank stakeholders. 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 and other stakeholders.

The Remuneration 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 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 Group's operations. The Board of Directors of the Bank assisted by the Risk Committee and the Audit Committee of the Bank, has the overall responsibility for the establishment and oversight of the Group's risk management framework and systems of internal controls. As such the Board of Directors and Executive Management of the Bank 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, which is in alignment with the Bank's overall strategic goals and objectives.

During 2022, the Head of Risk Management Function and Head of Internal Audit Function changed. More specifically, a new Head of Risk Management Function was appointed in April 2022 and a new Head of Internal Audit Function was appointed in December 2022.

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.

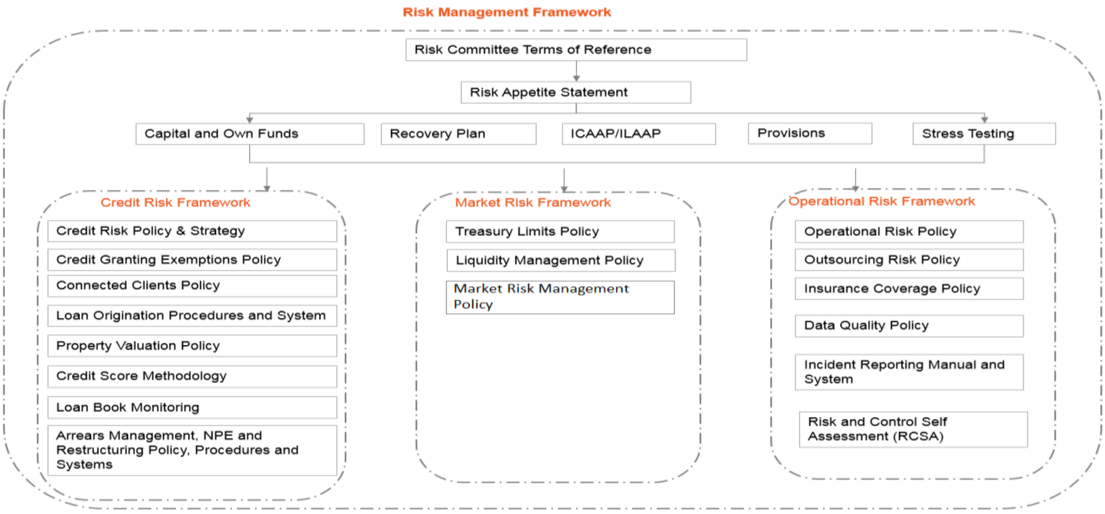

Figure 2: Risk Management Framework

Figure 2 above shows the architecture of the RMF's policies and procedures. During 2022 and in the first quarter of 2023 the following policies were approved/reviewed by the Board of Directors:

1. Credit Risk Management Policy
2. ICT Risk Management Policy
3. Credit Risk Strategy
4. Arrears Management Policy
5. Property Valuations Policy
6. Compliance Governance Policy
7. AML Policy
8. Anti Bribery Policy
9. Procurement Policy

10. Physical Security Policy
11. Health and Safety Policy
12. Credit Granting Exemptions Policy
13. Sanctions Policy
14. Remuneration Policy
15. Information Security Policy
16. Customer Acceptance Policy
17. Forbearance and Default classification Policy
18. Provisioning Policy
19. 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 of the Bank, 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") Internal Governance Directive
- the Central Bank's conditional requirements for license to operate in the Republic of Cyprus
- 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 of the Bank.

The Risk Appetite Statement considers the strategy of the Bank as well as the 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 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.

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 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, CRR and CRD

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 Group 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 Group 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 Group 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 foreign exchange risk, position risk for debt and equity instruments and commodity risk capital requirements using predefined methodologies.
  - ✓ The Group 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 Group and requires appropriate risk management, reporting and governance policies.
  - ✓ SREP is a holistic assessment of the Group'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 Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group.
  - ✓ 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/Group

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 Group's risk management framework, plays a key role in the strategic planning of the Group and is used to facilitate the decision-making process. Finally, the Group is required to prepare a Recovery Plan report which aims to formulate the framework in terms of actions capable of restoring the Group's capital asset quality, profitability and liquidity metrics under stress scenarios thus strengthening the Group's ability to restore its financial and economic standing. The Group'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.

- ✓ For the year 2022 the ICAAP and ILAAP reports have been submitted to CBC on 30 May 2023 and were based on the 2022-year end results. The Recovery Plan has been submitted to CBC on 14 December 2022 with reference date 31 December 2021. The Recovery Plan with reference date 31 December 2022 will be submitted to the CBC in Q3 2023.

CRR and CRD, transposed the capital, liquidity and leverage standards of Basel III into the European Union's legal framework.

EU OVC – ICAAP

A significant component of the Group'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 Group.

The Group 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 Group:

- ➢ 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 Group's capital adequacy in absorbing potential losses under stressed conditions.

As a principle, the ICAAP has reference date the audited financial statements of the Group 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 Group'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. This should allow the management to take into account all the risks associated with the Group's business strategies and the required level of capital that the Group 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 Group'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 31st May 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	● The Group's latest business plan was approved by the Board of Directors. The	Management actions may include: ✓ Capital raising	● ICAAP report submission for evaluation to

following capital buffers introduced under CRR/CRDIV: ✓ Conservation Buffer ✓ Countercyclical Buffer ✓ Systemic Risk ● Calculated using prescribed parameters for credit, operational and market risk	business plan applies the Group's 3-year strategic assumptions in order to create a baseline scenario for the Group's profitability, 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 Group'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 and New Deposits • Operational Risk based on the BIA method and projected gross income.	✓ Additional internal controls to reduce the possibility of occurrence or adversity of consequences	the Bank's Asset and Liability Committee ("ALCO"), the Internal Auditor and the Board of Directors' Risk Committee, and to the BoD for approval before is submitted to the CBC for the SREP. ● a Capital Adequacy Statement with the Board's opinion is submitted to CBC.

The Group has prepared and submitted to the CBC its ICAAP / ILAAP report for the year 2022 on 30 May 2023.

The Bank has received its latest SREP communication in February 2023 which noted that the CBC has conducted the SREP of the Bank on a consolidated basis with a reference date of 31 December 2021, following the submission of the Bank's ICAAP report and also having regard to any other relevant information received after that date. The CBC's review aimed at assessing whether the Bank has in place robust governance arrangements and effective processes to identify, manage, monitor and report the current and future risks and adequate internal control mechanisms and whether the Bank holds adequate capital to cover the nature and level of the risks which the Bank is or might be exposed. Furthermore, CBC communicated the new capital requirements on a consolidated basis.

Namely the latest SREP requirement has been set at 3,61% (2021: 4,5%), amending the Total Capital Ratio requirement to 14,11% without Pillar 2 Capital Guidance and to 14,61% with Pillar 2 Capital Guidance. It is also noted that in December 2022, the Central Bank of Cyprus set the countercyclical buffer rate that is required to be maintained by authorised credit institutions operating in the Republic from 0% to 0,5%. The 0,5% requirement should be met as from 30 November 2023 and will increase the total capital requirement of the Bank to 15,11%. An additional circular was received from the CBC in June 2023, informing the credit institutions that the countercyclical buffer will further increase to 1% from 2 June 2024.

The accounting basis of the Bank is prepared in accordance with IFRS and is described in the Notes of the Group's Financial Statements for 2022.

- 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 on a consolidated level. The table covers all 2022 quarters and the results as at 31 December 2021.

For all periods presented below, except for 31 December 2022 and 31 December 2021, capital ratios and leverage ratio disclosed are as in accordance with the regulatory reporting submissions, in which unaudited profits are excluded.

Table – EU KM1

Template EU KM1 – Key metrics template		a	b	c	d	e
		31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022	31 Dec 2021
		€	€	€	€	€
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	39.986.664	24.552.932	24.555.216	24.569.167	24.585.186
2	Tier 1 capital	44.986.664	29.552.932	24.555.216	24.569.167	24.585.186
3	Total capital	44.986.664	29.552.932	24.555.216	24.569.167	24.585.186
	Risk-weighted exposure amounts					
4	Total risk exposure amount	229.469.264	223.856.852	214.295.801	213.820.097	207.588.759
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17,43%	10,97%	11,46%	11,49%	11,84%
6	Tier 1 ratio (%)	19,60%	13,20%	11,46%	11,49%	11,84%

7	Total capital ratio (%)	19,60%	13,20%	11,46%	11,49%	11,84%
	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 (%)	0,00%	0,00%	0,00%	0,00%	0,00%
9	Institution specific countercyclical capital buffer (%)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 9a	Systemic risk buffer (%)	0,00%	0,00%	0,00%	0,00%	0,00%
10	Global Systemically Important Institution buffer (%)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 10a	Other Systemically Important Institution buffer (%)	0,00%	0,00%	0,00%	0,00%	0,00%
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 (%)	10,40%	3,94%	4,43%	4,46%	4,81%
	Leverage ratio					
13	Total exposure measure	499.373.252	501.189.883	480.559.732	463.733.395	446.749.999
14	Leverage ratio (%)	9,01%	5,90%	5,11%	5,30%	5,50%
	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	0,00%	0,00%	0,00%	0,00%	0,00%

	excessive leverage (%)					
EU 14b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%
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 (%)	0,00%	0,00%	0,00%	0,00%	0,00%
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)	124.282.037	130.569.048	115.266.580	95.995.767	93.273.244
EU 16a	Cash outflows – Total weighted value	36.666.884	35.215.556	33.168.417	32.021.259	37.369.556
EU 16b	Cash inflows – Total weighted value	13.835.950	12.941.763	12.726.307	14.244.877	10.214.383
16	Total net cash outflows (adjusted value)	22.830.934	22.273.793	20.442.110	17.776.382	27.155.173
17	Liquidity coverage ratio (%)	544%	586%	564%	540%	343%
	Net Stable Funding Ratio					
18	Total available stable funding	429.908.197	427.615.170	406.905.234	389.681.818	358.308.788
19	Total required stable funding	256.367.003	255.664.980	250.736.620	247.517.173	240.795.219
20	NSFR ratio (%)	168%	167%	162%	157%	149%

Capital adequacy and leverage ratio
On 31 December 2022 and 31 December 2021, the Bank fully met the minimum capital requirements. The Consolidated Common Equity Tier 1 ratio and the Consolidated Total Capital ratio as at 31 December 2022 were 17,43% and 19,60% respectively. Taking into consideration the recently received SREP requirement, the Total Capital Ratio requirement as of 1 January 2023 is set at 14,11% without Pillar 2 Capital Guidance and at 14,61% including Pillar 2 Capital Guidance both on a standalone and on a consolidated level.

The Redeemable notes issued by Ancoria Investments Plc did not meet the eligibility criteria and were not considered as regulatory capital at a Consolidated level, leading to a technical breach of consolidated capital ratios as at the end of 2021 and up to the fourth quarter in 2022. Nevertheless, given the funds raised from the Redeemable notes were invested to Ancoria Bank Ltd in the form of ordinary share capital, all regulatory ratios were fully met at Bank level. The abovementioned breach at consolidated level was resolved in November 2022 when Ancoria Investments Plc had successfully issued and allotted an additional 50.922 ordinary shares with a nominal value of €1 each and a share premium of €253,42 each for a total cash consideration of €12.955.575. The said capital increase has triggered the redemption clauses included in the terms of the Redeemable Notes issued by Ancoria Investments Plc in 2020 and 2021. As a result, the Redeemable Notes with contractual value of €12.500.000 plus accrued interest and carrying amount of €11.185.764 as at 31 December 2021 have been settled through an offset with the share capital increase on the same date. In case the Redeemable notes were considered eligible capital then the Group capital ratios would have been in compliance throughout.

In addition to the settlement of the Redeemable Notes, the increase in Share Capital as described in section 4.1 below, has led to the increase of both the Capital Ratio and 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.

The information presented below represents the Bank's capital position under CRR / CRD IV. As mentioned previously, the Bank was in compliance with the regulatory capital ratios throughout the year.

		a	b	c	d	e
		31 Dec 2022	**30 Sep 2022**	**30 June 2022**	**31 Mar 2022**	**31 Dec 2021**
		€	**€**	**€**	**€**	**€**
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	40.383.583	37.456.752	37.459.036	37.472.987	37.489.005
2	Tier 1 capital	45.383.583	42.456.752	37.459.036	37.472.987	37.489.005
3	Total capital	45.383.583	42.456.752	37.459.036	37.472.987	37.489.005
	Risk-weighted exposure amounts					
4	Total risk exposure amount	231.004.290	224.116.610	214.551.778	214.072.293	207.829.565
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17,48%	16,71%	17,46%	17,50%	18,04%
6	Tier 1 ratio (%)	19,65%	18,94%	17,46%	17,50%	18,04%
7	Total capital ratio (%)	19,65%	18,94%	17,46%	17,50%	18,04%

4. SCOPE OF APPLICATION OF OWN FUNDS

4.1. Information relating to share capital

Authorised capital

Under its Memorandum of Association, Ancoria Investments Plc (‘Company) fixed its authorised share capital at 200.000 ordinary shares of nominal value of €1 each.

Issued capital

Based on a resolution passed by the General Meeting of the Company held on 11th November 2022, the Company has issued and allotted 50.922 ordinary shares of €1 each at a premium of €253,42 each, for a total subscription price of €12.955.575. Following this allotment, the total share capital of the Company as at 28th November 2022 amounted to €150.922 with a total share premium of €62.804.653.

The new issuance of shares was subscribed by existing shareholders and the revised shareholding percentages of the Company’s main shareholders are reflected below:

Name / relationship	**Percentage of Share Capital in the parent company**	
	31 December 2022	31 December 2021
	%	%
Bo Sievert Larsson	**54,86**	**41,00**
Ancoria Insurance Ltd	**13,25**	**20,00**
Sievert Larsson Scholarship Foundation	**12,71**	**19,18**
Trading Point Holdings Ltd	**6,49**	**9,80**
Other shareholders	**12,69**	**10,02**
	100,00	**100,00**

As at 31 December 2022, the Company had a total issued share capital of 150.922 (2021: 100.000) ordinary shares of nominal value of €1 each, at a total premium of €62.804.653 (2021: €49.000.000).

Ancoria Bank Limited

On 28 September 2022, Ancoria Bank Limited has successfully completed the issuance of an Additional Tier 1 (‘AT1’) eligible capital instrument of €5 million. The instrument is in the form of 0% interest, perpetual convertible note, with conversion triggers as prescribed by the CRR. In addition, the Bank has the right to redeem the instrument at any time after the 5th anniversary of its issuance but subject to obtaining the approval of the regulator.

There are no restrictions on the transfer of the Bank’s or the Company’s ordinary shares other than the provisions of the respective 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 in excess of certain thresholds.

4.2. Reconciliation of Regulatory Capital with Equity as per Consolidated Financial Statements

The table presented below provides a reconciliation of own funds items to the Consolidated audited Financial Statements for the years ended 31 December 2022 and 31 December 2021, 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 2022	31 December 2021	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	62.955.575	50.000.000	
2	Retained earnings	(23.296.275)	(24.342.241)	e.
3	Accumulated other comprehensive income (and other reserves)	1.463.109	-	
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**	**41.122.409**	**25.657.759**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(66)	(1.051)	e.
8	Intangible assets (net of related tax liability) (negative amount)	(1.135.679)	(1.071.522)	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)**	(1.135.745)	(1.072.573)	d.
29	**Common Equity Tier 1 (CET1) capital**	**39.986.664**	**24.585.186**	d. and g.

Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	5.000.000	-	
31	of which: classified as equity under applicable accounting standards	5.000.000	-	
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**	5.000.000	-	
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**	5.000.000	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**44.986.664**	**24.585.186**	
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)**	**44.986.664**	**24.585.186**	

60	**Total Risk exposure amount**	**229.469.264**	**207.588.759**	
Capital ratios and requirements including buffers				
61	Common Equity Tier 1 capital	17,43%	11,84%	
62	Tier 1 capital	19,60%	11,84%	
63	Total capital	19,60%	11,84%	
64	Institution CET1 overall capital requirements	9,53%	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**	12,93%	7,34%	
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)	1.059.045	-	
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 Group applied the simplified approach described given that the sum of the absolute value of fair-valued assets and liabilities, as stated in the Group's financial statements under the applicable accounting framework, is less than EUR15bn.

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

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.

		a	b	c
	31 December 2022	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	**Reference**
		€	**€**	
Assets				
1	Cash and balances with Central Bank	100.030.570	100.030.570	
2	Placements with banks	8.625.937	8.625.937	
3	Loans and advances to customers	333.028.509	333.028.509	
4	Investments at fair value through other comprehensive income	65.475	65.475	
5	Investments at amortised cost	32.561.481	32.561.481	
6	Other assets	3.764.451	3.786.427	a.
7	Deferred tax asset	1.059.045	1.059.045	
8	Property and equipment	5.874.492	5.874.492	
9	Intangible assets	1.135.679	-	b.
10	**Total assets**	**486.145.639**	**485.031.936**	
Liabilities				
1	Customer deposits	429.742.902	429.742.902	
2	Other borrowings	5.936.727	5.936.727	

3	Lease liabilities	797.897	797.897	
4	Provisions and other liabilities	3.543.358	3.567.746	c.
5	**Total liabilities**	**440.020.884**	**440.045.272**	
Equity				
1	Share capital	150.922	150.922	
2	Share premium	62.804.653	62.804.653	
3	Revaluation reserve	12.240	-	d.
4	Other reserve	1.463.108	1.463.108	
5	Accumulated losses	(23.306.168)	(24.432.020)	e.
6	Non-controlling interest	5.000.000	5.000.000	
7	**Total shareholders' equity**	**46.124.755**	**44.986.664**	
Total liabilities and equity		**486.145.639**	**485.031.936**	

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	3.123.759	3.047.154	a.
7	Property and equipment	6.093.957	6.093.957	
8	Intangible assets	1.071.522	-	b.
9	**Total assets**	**432.199.566**	**431.063.494**	
Liabilities				
1	Customer deposits	369.177.499	369.177.499	

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	3.805.975	3.744.823	c.
6	Redeemable Notes	11.185.764	12.648.871	g.
7	**Total liabilities**	**405.076.353**	**406.478.308**	
Equity				
1	Share capital	100.000	100.000	
2	Share premium	49.900.000	49.900.000	
3	Revaluation reserve for securities at FVOCI	2.346	-	d.
4	Other reserve	1.463.108	-	g.
5	Accumulated losses	(24.342.241)	(25.414.814)	e.
6	**Total shareholders' equity**	**27.123.213**	**24.585.186**	
Total liabilities and equity		**432.199.566**	**431.063.494**	

Notes

2. 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".
3. 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 Group 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 2022 and 2021 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.).
4. Differences in other assets (reference a.) mainly arise due to different treatment between Financial Statements and regulatory capital calculations in netting-off of negative balances with their respective positive balance.
5. 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.).
6. Under 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.). They mainly arise due to different treatment between Financial Statements and regulatory capital calculations in netting-off of negative balances with their respective positive balance.
7. Redeemable notes issued by Ancoria Investments Plc, of contractual value EUR 12.500.000, with the intention to contribute all the funds raised to Ancoria Bank Limited, in return for the issuance of ordinary shares by Ancoria Bank Limited. The ordinary shares issued by the Bank are eligible capital instruments for regulatory purposes at the level of the Bank, but the Redeemable notes at the level of Ancoria Investments Plc did not meet the requirements to count as eligible capital instruments at consolidated

level. Other reserve in equity originated from the initial measurement of the notes at fair value in compliance with IFRS requirements.

5. CAPITAL REQUIREMENTS

The Group has prepared and submitted its ICAAP / ILAAP report for the year 2022.

The Bank received its latest SREP communication in February 2023 which, amongst others, communicated the new capital requirements on a consolidated basis.

Namely the latest SREP requirement has been set at 3,61% (2021: 4,5%), amending the Total Capital Ratio requirement to 14,11% without Pillar 2 Capital Guidance and to 14,61% with Pillar 2 Capital Guidance. It is also noted that in December 2022, the Central Bank of Cyprus set the countercyclical buffer rate that is required to be maintained by authorised credit institutions operating in the Republic from 0% to 0,5%. The 0,5% requirement should be met as from 30 November 2023 and will increase the total capital requirement of the Bank to 15,11%. An additional circular was received from the CBC in June 2023, informing the credit institutions that the countercyclical buffer will further increase to 1% from 2 June 2024.

The Board of Directors is intensifying its efforts to develop the operations of the Group 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 Group to fulfil its business objectives and maintain profitability.

The Group's regulatory capital as at 31 December 2022, is calculated in accordance with the provisions of the EU Regulation 575/2013.

The Group is comfortably above regulatory capital ratio minima. Nevertheless, it monitors its capital position on a regular basis taking into consideration its business model, the macro-economic environment and the regulatory environment.

Table – EU OV1 – Overview of total risk exposure amounts

2022		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31 December 2022	30 September 2022	31 December 2022
		€	€	€
1	Credit risk (excluding CCR)	214.318.217	211.882.802	17.145.457
2	Of which the standardised approach	214.318.217	211.882.802	17.145.457
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	15.151.047	11.974.050	1.212.084
EU 23a	Of which basic indicator approach	15.151.047	11.974.050	1.212.084
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)	1.059.045	-	-
25	Not applicable	-	-	-
26	Not applicable	-	-	-
27	Not applicable	-	-	-
28	Not applicable	-	-	-
29	**Total**	**229.469.264**	**223.856.852**	**18.357.541**

In the above table, “Amounts below the thresholds for deduction” (subject to 250% risk weight) relate to the deferred tax asset recognised based on the anticipated future utilisation of tax losses carried forward by the Bank as supported by its approved Business plan. The deferred tax asset was below the thresholds set by CRR II regarding deduction from capital and thus was subject to 250% risk weight according to CRR II.

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)	195.625.646	191.968.301	15.650.041
2	Of which the standardised approach	195.625.646	191.968.301	15.650.041
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**	**207.588.759**	**199.558.064**	**16.607.101**

Notes

1. The credit RWAs have increased by €20 million during 2022, 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 €3 million during 2022, 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 Group is exposed to Credit risk from diverse financial instruments, primarily from credit facilities, treasury products (placements with Banks and Securities), trade finance products and acceptances, commitments and guarantees.

6.2. Credit Risk Management procedures

The Group, though its Subsidiary, 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 Organizational 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 November 2022. 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.

The relevant policy has been formulated to provide all stakeholders with a comprehensive understanding of how the arrears is being handled by the Bank and ensure that all staff has 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.

Credit Sanctioning department
The 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 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 Credit Sanctioning, they 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 exceeding specific exposure thresholds should be accompanied with Credit Sanctioning department's and Risk Management Function's opinions when reviewed.
As a third layer of defence, the Internal Audit function performs audits of the loan origination process for the entire portfolio on a sample-selection basis.

6.3. Measures and credit limits
The Group, 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 groups 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) in relation to specific type of transactions that include repurchase agreements, securities or commodities lending or borrowing, long settlement transactions, derivatives and margin lending transactions. As at 31 December 2022 the Group did not have any outstanding repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions, margin lending transactions or derivative instruments transactions, and thus no CCR.

Credit risk concentration

According to the EU Regulation 575/2013, a large exposure is defined as the Group'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 Group's eligible capital, after taking into account the effect of credit risk mitigation. Throughout the year, the Group has always been in compliance with the applicable limit.

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

The Group 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 Group. Collaterals may take the form of either tangible or non-tangible security. Tangible security are all types of collateral where the Group 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 2022, the main types of collateral obtained by the Group 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 Group 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, in Section 5, 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 (i.e. Fitch ratings, Standard and Poor's rating services, and Moody's Investor service) are used.

For the purpose of applying the Standardized Approach, the Group adopts the three ratings approach as described in Article 138 of EU Regulation 575/2013 for all asset classes.

The Group 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 Group has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Group's capital.

6.7. Countercyclical Capital Buffer

The Countercyclical capital buffer as at 31 December 2022 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 Group's specific countercyclical capital buffer consists of the weighted average of the countercyclical buffer rates (CcyB) that apply in the countries where the relevant credit exposures are located. The Group's specific countercyclical capital buffer as at 31 December 2022 has been found to be 0%, given that the majority of the exposures are in Cyprus.

Following the revised methodology described in its macroprudential policy and consultation with the ECB, the CBC decided to increase the CcyB rate on 30 November 2022 for the risk weighted exposures in the Republic of Cyprus of each licensed credit institution incorporated in the Republic, from 0% to 0,5%. The new rate of 0,5% is applicable from 30 November 2023. In a subsequent announcement in June 2023, CBC announced that the CcyB will further increase to 1% from 2 June 2024.

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 Group classifies its financial assets at amortised cost ('AC'), fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL').

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.

The classification and subsequent measurement of debt financial assets depends on: i) the Group'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 Group manages the assets in order to generate cash flows – whether the Group'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 Group 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 Group's business model assessment determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

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 Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows,
- interest rates which are beyond the control of the Group or variable interest rate consideration,
- features that could modify the time value of money,
- prepayment and extension features,
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features), and
- convertible features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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 Group reclassifying financial assets. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

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

Impairment methodology
The Group 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 Group 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 Group'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 Group 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 Group 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 below on how the Group 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 Group only recognises the cumulative changes in lifetime ECLs since initial recognition.

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 Group 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 and for financial instruments other than loans and advances to customers
The Group uses certain criteria to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The criteria for determining whether credit risk has increased significantly include delinquency and forbearance measures and deterioration in credit score for loans and advances, and deterioration of external credit rating for debt securities and placements with banks.

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 2022, an amount of €1.014.553 (2021: €476.948) was classified by the Group as NPE for its on balance sheet exposures. NPEs are defined as all those exposures towards 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%
d) Performing forborne exposures under probation for which additional forbearance measures are extended.
e) Performing forborne exposures under probation that present more than 30 days past due within the probation period.
f) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.

In the case of retail exposures, the Group 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.

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
   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 Group, 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.

Forborne exposures
On 31 December 2022, €2.922.129 (2021: €3.046.781) were classified as performing forborne exposures and €58.497 (2021: €58.541) were classified as non-performing forborne exposures totalling to €2.980.626 (2021: €3.105.332). As part of the portfolio monitoring procedures, the Group has agreed revisions on loan terms with certain clients, the majority of which were affected by the economic outcome of Covid-19. Where applicable such exposures were classified as forborne in accordance with the relevant EBA definition.

EBA/GL/2022/13 amending EBA/GL/2018/10 – Template 1 – Credit quality of forborne exposures
Forborne exposures are debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. The definition of forborne exposures is in accordance with the provisions of Commission Implementing Regulation (EU) 2015/227 of 9 January 2015.

The table **EU CQ1** below presents the gross carrying amount, the related accumulated impairment, accumulated changes in fair value due to credit risk and provisions, and the collateral and financial guarantees received, of forborne exposures, broken down by exposure class.

31-Dec-22		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	2.922.129	58.497	55.557	58.497	(31.672)	(17.116)	2.883.064	40.599

020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	2.011.680	-	-	-	(13.413)	-	1.998.267	-
070	*Households*	910.449	58.497	55.557	58.497	(18.259)	(17.116)	884.797	40.599
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	15.536	-	-	-	-	-	15.536	-
100	***Total***	2.937.665	58.497	55.557	58.497	(31.672)	(17.116)	2.898.600	40.599

31-Dec-21		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**Collateral received and financial guarantees received on forborne exposures**	
		Performing forborne	**Non-performing forborne**			**On performing forborne exposures**	**On non-performing forborne exposures**		**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
				Of which defaulted	**Of which impaired**				
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	3.046.781	58.541	58.541	58.541	(8.803)	(13.695)	3.012.175	44.846
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	-	-	-	-	-	-	-	-
060	*Non-financial corporations*	2.026.283	-	-	-	(4.249)	-	2.022.044	-
070	*Households*	1.020.498	58.541	58.541	58.541	(4.554)	(13.695)	990.131	44.846

080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	95.114	-	-	-	-	-	95.114	-
100	***Total***	3.141.895	58.541	58.541	58.541	(8.803)	(13.695)	3.107.289	44.846

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 published Guidelines (EBA/GL/2020/07) including the disclosure requirements, on legislative and non-legislative moratoria on loan repayments with effect from 2 June 2020. 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. Following the EBA announcement on 16 December 2022 in regard to the reduced volumes of loans subject to various forms of payment moratoria under the scope of COVID-19, the disclosure requirements have decreased during 2022, and therefore EBA has taken the decision to repeal the Guidelines on COVID-19 reporting and disclosure from 1 January 2023.

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

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

2022		Number of obligors		Gross carrying amount										
			Of which: granted		Of which: granted									
						Of which: legislative moratoria	Of which: subject to extended moratoria	Of which: expired	Residual maturity of moratoria					
									<= 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**	400	400	104.432.735	104.432.735	104.432.735	-	104.432.735	-	-	-	-	-	-
0020	of which: Households				54.745.759	54.745.759	-	54.745.759	-	-	-	-	-	-
0030	of which: Collateralised by residential immovable property				45.905.384	45.905.384	-	45.905.384	-	-	-	-	-	-
0040	of which: Non-financial corporations				49.686.976	49.686.976	-	49.686.976	-	-	-	-	-	-
0050	of which: Small and medium-sized enterprises				49.591.255	49.591.255	-	49.591.255	-	-	-	-	-	-
0060	of which: Collateralised by commercial immovable property				38.513.324	38.513.324	-	38.513.324	-	-	-	-	-	-

2021		Number of obligors	Of which: granted	Gross carrying amount	Of which: granted	Of which: legislative moratoria	Of which: subject to extended moratoria	Of which: expired	Residual maturity of moratoria: <= 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**	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	-	-	-	-	-	-

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

2022		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**	104.432.735	103.749.155	1.564.324	11.119.164	683.580	-	114.151	(275.188)	(228.113)	(23.611)	(47.615)	(47.076)	-	-		-	
0020	of which: Households	54.745.759	54.230.737	783.251	3.974.582	515.022	-	114.151	(104.303)	(104.303)	(18.259)	(38.423)	-	-	-		-	
0030	of which: Collateralised by residential immovable property	45.905.384	45.390.362	783.251	3.508.379	515.022	-	114.151	(57.765)	(57.765)	(18.259)	(36.765)	-	-	-		-	
0040	of which: Non-financial corporations	49.686.976	49.518.418	781.073	7.144.582	168.558	-	-	(170.886)	(123.810)	(5.351)	(9.192)	(47.076)	-	-		-	
0050	of which: Small and medium-sized enterprises	49.591.255	49.422.696	781.073	7.144.582	168.558	-	-	(168.795)	(121.719)	(5.351)	(9.192)	(47.076)	-	-		-	
0060	of which: Collateralised by commercial immovable property	38.513.324	38.513.324	632.479	6.077.242	-	-	-	(71.930)	(71.930)	(701)	(1.655)	-	-	-		-	

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)	-	-	-		-	

The increase in Stage 2 exposures in the year 2022 is due to a number of management overlays applied in the year as a response to uncertainties from the consequences of the Russian-Ukrainian war, the geopolitical instability, increase in inflation, energy prices and thus increased cost of living, whereby some exposures were transferred from Stage 1 to Stage 2.

EBA/GL/2022/13 amending EBA/GL/2018/10 – Template 4 – Performing and non-performing exposures and related provisions

The table **EU CR1** provides an overview of the credit quality of non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class.

	31-Dec-22	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**103.803.620**	**103.803.620**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**333.137.902**	**309.817.233**	**23.320.669**	**1.014.554**	**-**	**1.014.554**	**(1.008.202)**	**(782.761)**	**(225.441)**	**(115.745)**	**-**	**(115.745)**	**-**	**305.461.241**	**895.529**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	15	-	15	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	1.038.269	1.026.189	12.080	340	-	340	(1.215)	(1.028)	(187)	(297)	-	(297)	-	973.239	-
060	Non-financial corporations	154.054.848	141.035.599	13.019.249	223.602	-	223.602	*(568.546)*	(545.016)	(23.530)	(65.606)	-	(65.606)	-	131.170.322	157.884
070	Of which SMEs	*151.494.166*	*138.475.125*	*13.019.041*	*223.322*	-	*223.322*	*(503.291)*	*(479.764)*	*(23.527)*	*(65.336)*	-	*(65.336)*	-	*131.170.322*	*157.884*
080	Households	178.044.770	167.755.445	10.289.325	790.612	-	790.612	(438.441)	(236.717)	(23.527)	(49.842)	-	(49.842)	-	173.317.680	737.645
090	**Debt securities**	**32.572.615**	**32.572.615**	**-**	**-**	**-**	**-**	**(11.134)**	**(11.134)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	19.779.016	19.779.016	-	-	-	-	(6.940)	(6.940)	-	-	-	-	-	-	-
120	Credit institutions	4.546.482	4.546.482	-	-	-	-	(1.049)	(1.049)	-	-	-	-	-	-	-
130	Other financial corporations	2.843.949	2.843.949	-	-	-	-	(997)	(997)	-	-	-	-	-	-	-
140	Non-financial corporations	5.403.168	5.403.168	-	-	-	-	(2.148)	(2.148)	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**37.653.891**	**35.761.807**	**1.892.084**	**17.361**	**-**	**17.361**	**88.399**	**87.052**	**1.347**	**579**	**-**	**579**	-	**20.001.636**	**14.340**
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-		-	-

190	Other financial corporations	176.050	176.050	-	-	-	-				-	-	-		108.626	-
200	Non-financial corporations	22.236.577	21.006.920	1.229.657	-	-	-				-	-	-		9.818.442	-
210	Households	15.241.264	14.578.837	662.427	17.361	-	17.361				579	-	579		10.074.568	14.340
220	**Total**	**507.168.028**	**481.955.275**	**25.212.753**	**1.031.915**	**-**	**1.031.915**	**(930.937)**	**(706.843)**	**(224.094)**	**(115.166)**	**-**	**(115.166)**	**-**	**325.462.877**	**909.869**

	31-Dec-21	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**85.375.591**	**85.375.591**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**307.510.492**	**301.018.224**	**6.492.268**	**476.948**	**-**	**476.375**	**(833.169)**	**(808.433)**	**(24.736)**	**(117.125)**	**-**	**(117.125)**	**-**	**281.929.619**	**332.725**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	116	116	-	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	1.928.342	1.928.342	-	298	-	-	(2.051)	(2.051)	-	-	-	-	-	1.893.506	-
060	Non-financial corporations	137.186.230	132.900.405	4.285.825	218.021	-	217.798	(621.634)	(616.639)	(4.995)	(63.699)	-	(63.699)	-	115.102.460	154.004
070	Of which SMEs	*134.818.722*	*130.532.897*	*4.285.825*	*217.858*	-	*217.798*	*(530.096)*	*(525.101)*	*(4.995)*	*(63.699)*	-	*(63.699)*	-	*115.102.460*	*154.004*
080	Households	168.395.804	166.189.361	2.206.443	258.629	-	258.577	(209.484)	(189.743)	(4.995)	(53.426)	-	(53.426)	-	164.933.653	178.721
090	**Debt securities**	**21.478.649**	**21.478.649**	**-**	**-**	**-**	**-**	**(6.203)**	**(6.203)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	7.345.210	7.345.210	-	-	-	-	(922)	(922)	-	-	-	-	-	-	-
120	Credit institutions	4.646.658	4.646.658	-	-	-	-	(856)	(856)	-	-	-	-	-	-	-
130	Other financial corporations	3.574.792	3.574.792	-	-	-	-	(1.323)	(1.323)	-	-	-	-	-	-	-
140	Non-financial corporations	5.911.989	5.911.989	-	-	-	-	(3.102)	(3.102)	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**41.703.122**	**41.527.918**	**175.203**	**1.456**	**-**	**1.456**	**137.176**	**137.176**	**-**	**-**	**-**	**-**		**25.585.435**	**-**
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-		-	-
190	Other financial corporations	128.626	128.626	-	-	-	-				-	-	-		128.626	-
200	Non-financial corporations	23.541.769	23.403.873	137.895	-	-	-				-	-	-		11.289.355	-
210	Households	18.032.727	17.995.419	37.308	1.456	-	1.456				-	-	-		14.167.454	-
220	**Total**	**456.067.854**	**449.400.382**	**6.667.471**	**478.404**	**-**	**477.831**	**(702.196)**	**(677.460)**	**(24.736)**	**(117.125)**	**-**	**(117.125)**	**-**	**307.515.054**	**332.725**

EBA/GL/2022/13 amending EBA/GL/2018/10 – Template 3 – Credit quality of performing and non-performing exposures by past due days

The table **EU CQ3** provides an overview of credit quality of performing and non-performing exposures by past due days, as per Commission Implementing Regulation (EU) No 680/2014.

31-Dec-22		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**103.803.620**	**103.803.620**	-	-	-	-	-	-	-	-	-	-
010	**Loans and advances**	**333.137.902**	**332.060.502**	**1.077.400**	**1.014.554**	**192.533**	**180.239**	**400.880**	**4.746**	**235.558**	**598**	-	**1.009.936**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	15	15	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	1.038.269	1.037.627	642	340	-	-	-	-	340	-	-	340
060	Non-financial corporations	154.054.848	153.939.423	115.425	223.602	10.232	-	-	-	212.772	598	-	223.498
070	Of which SMEs	*151.494.166*	*151.378.949*	*115.217*	*223.322*	*10.232*	-	-	-	*212.772*	*318*	-	*223.218*
080	Households	178.044.770	177.083.437	961.333	790.612	182.301	180.239	400.880	4.746	22.446	-	-	786.098
090	**Debt securities**	32.572.615	32.572.615	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	19.779.016	19.779.016	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	4.546.482	4.546.482	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	2.843.949	2.843.949	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	5.403.168	5.403.168	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**37.653.891**			**17.361**								**17.361**
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit institutions	-			-								-
190	Other financial corporations	176.050			-								-
200	Non-financial corporations	22.236.577			-								-
210	Households	15.241.264			17.361								17.361
220	**Total**	**507.168.028**	**468.436.737**	**1.077.400**	**1.031.915**	**192.533**	**180.239**	**400.880**	**4.746**	**235.558**	**598**	-	**1.027.297**

31-Dec-21		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			**Non-performing exposures**								
			Not past due or past due ≤ 30 days	**Past due > 30 days ≤ 90 days**		**Unlikely to pay that are not past due or are past due ≤ 90 days**	**Past due > 90 days ≤ 180 days**	**Past due > 180 days ≤ 1 year**	**Past due > 1 year ≤ 2 years**	**Past due > 2 years ≤ 5 years**	**Past due > 5 years ≤ 7 years**	**Past due > 7 years**	**Of which defaulted**
005	**Cash balances at central banks and other demand deposits**	**85.375.591**	**85.375.591**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**307.510.492**	**306.844.663**	**665.829**	**476.948**	**227.846**	**14.482**	**2.883**	**208.636**	**23.101**	**-**	**-**	**476.836**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	116	15	101	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	1.928.342	1.927.531	811	298	-	-	-	-	298	-	-	298
060	Non-financial corporations	137.186.230	137.176.202	10.028	218.021	8	11.882	-	205.348	783	-	-	217.961
070	Of which SMEs	*134.818.722*	*134.808.941*	*9.781*	*217.858*	*8*	*11.882*	-	*205.348*	*620*	-	-	*217.798*
080	Households	168.395.804	167.740.915	654.889	258.629	227.839	2.600	2.883	3.288	22.020	-	-	258.577
090	**Debt securities**	**21.478.649**	**21.478.649**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	7.345.210	7.345.210	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	4.646.658	4.646.658	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	3.574.792	3.574.792	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	5.911.989	5.911.989	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**41.703.122**			**1.456**								**1.456**
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit institutions	-			-								-
190	Other financial corporations	128.626			-								-
200	Non-financial corporations	23.541.769			-								-
210	Households	18.032.727			1.456								1.456
220	**Total**	**456.067.854**	**413.698.903**	**665.829**	**478.404**	**227.846**	**14.482**	**2.883**	**208.636**	**23.101**	**-**	**-**	**478.292**

Table 1: EU CQ3 as at 31 Dec 2021

7. MARKET RISK – EU MRA

7.1. Definition of Market Risk

The Group through 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, is in-line with the Bank's Risk Appetite Statement.

7.2. Monitoring

The 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
- Approves 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 assets and liabilities are denominated in a currency that is not the Bank's measurement currency. The Group 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 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 Group 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 and the overall net foreign exchange position anytime during the 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 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 2022: Foreign currency exposure

Currency	**Spot Position**		**Forward Position**		**Net Open Foreign Currency Position**	
	Assets	Liabilities	Assets	Liabilities	In foreign currency	In EURO
GBP	4.979.563	4.732.679	-	-	246.884	278.650
USD	1.646.739	1.588.721	-	-	58.018	54.410
JPY	4.801.198	-	-	-	4.801.198	34.138
CHF	20.307	-	-	-	20.307	20.635
SEK	251.070	-	-	-	251.070	22.542
PLN	508.473	-	-	-	508.473	108.456
AUD	3.141	-	-	-	3.141	2.001
HUF	43.500	-	-	-	43.500	109
			Total of net Long positions			520.941
			Total of net Short positions			-
			Overall net foreign exchange position			**520.941**

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**

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 because of changes in market interest rates ('cash flow interest rate risk'). 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 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. This difference is multiplied by the respective assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to estimate the impact on annual revenues of any changes in interest rates for the next twelve months for each currency.

The Group 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–- According to the Risk Appetite Statement: 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 €113.963 (2021: Increase in the loss before tax €18.868). 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 €113.963 (2021: Increase in the loss before tax €18.868). 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.

The specific sensitivity analysis does not assume application of interest rate floors.

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 Hold to Collect ('HTC') and Hold to Collect and Sell ('HTCS') portfolios should be in line with the Risk Appetite Statement and the Risk Management Function 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 considered 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 Group 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 Group did not maintain a Hold to Collect and Sell ('HTCS') portfolio as at 31 December 2022. Therefore the 95% 1-year Value at Risk ('VaR') of the HTCS portfolio was €nil as at 31 December 2022 (2021: €7.521), and as a result, the Group is not exposed to any market risk of the HTCS portfolio.

The Group is also exposed to equity securities price risk because of investments held by the Bank and classified as FVOCI (unlisted). 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 2022 due to the immaterial amounts of equities held as at year-end.

7.6. Capital Requirements

The Group 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 foreign exchange risk, position risk for debt and equity instruments and commodity risk capital requirements using predefined methodologies.

The market risk capital requirement for both 31 December 2022 and 31 December 2021 was €nil.

8. LIQUIDITY RISK

8.1. Definition of Liquidity Risk

The Group defines liquidity risk as the risk that the Group 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 Group through 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 Group's Recovery Plan.

8.2. Monitoring Process

The Group though 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 regular intervals, 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 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 facilitate 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 regulatory liquidity ratios (Liquidity Coverage Ratio and Net Stable Funding Ratio).

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 Group as at 31-12-2022 as measured through key regulatory ratios is set below:

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

Regulatory Liquidity Ratios	Regulatory Requirement	Position as at 31 December 2022
LCR	≥100%	544%
NSFR	≥100%	168%

Table 2: Group's Regulatory Liquidity Position as at 31 Dec 2022

Note 35 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 2022 (figures are shown on a consolidated basis).

	Value (€) / Percentage (%) 2022	Value (€) / Percentage (%) 2021
Liquidity buffer	**124.282.037**	**93.273.244**
Net liquidity outflow	**22.830.934**	**27.155.173**
Liquidity coverage ratio (%)	**544%**	**343%**
Denominator calculations		
Total Outflows	36.666.884	37.369.556
Reduction for inflows subject to 75% Cap	13.835.950	10.214.383
Net liquidity outflow	**22.830.934**	**27.155.173**

Table EU LIQA Liquidity: Coverage Ratio breakdown

The Group 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. On 31st December 2022 the Group's NSFR stood at 168% based on CRR II.

Table: Net Stable Funding Ratio breakdown

31/12/2022	Unweighted value by residual maturity			Weighted value
	< 6 months	≥ 6 months to < 1 year	≥ 1 year	
Available Stable Funding Amounts				
Capital items and instruments	-	-	**43.927.173**	**43.927.173**
Own funds			43.927.173	43.927.173
Other capital instruments	-	-	-	-
Retail deposits	**312.912.738**	**18.990.281**	**16.918.375**	**325.346.651**
Stable deposits	182.075.657	12.235.517	9.307.855	193.903.470
Less stable deposits	130.837.081	6.754.764	7.610.520	131.443.181
Financial customers and central banks	**16.291.473**	**4.867.756**	**2.713.552**	**10.722.486**
Liabilities provided by the ECB or the central bank of a Member State	16.291.473	4.867.756	2.713.552	10.722.486
Other non-financial customers (except central banks)	**52.156.775**	**1.163.015**	**3.681.108**	**30.341.003**
Liabilities provided by the central government of a Member State or a third country	207.308	-	-	103.654
Liabilities provided by non-financial corporate customers	51.949.467	1.163.015	3.681.108	30.237.349
Total available stable funding (ASF)				**429.908.197**
Required Stable Funding Amounts				
Total high-quality liquid assets (HQLA)				**2.482.992**
Securities other than liquid assets	**307.926**	**-**	**4.387.758**	**3.883.557**
Non- HQLA securities and	307.926	-	4.387.758	3.883.557

exchange traded equities				
Loans	**26.270.098**	**20.034.324**	**277.462.531**	**229.670.915**
Other loans and advances to financial customers	8.626.049		51	862.656
Loans to non-financial customers other than central banks where those loans are assigned a risk weight of 35% or less	5.408.253	5.647.925	129.370.177	89.618.704
Other loans to non-financial customers other than central banks	12.235.796	14.386.399	148.092.303	139.189.555
Other assets	**44.612**	**51.994**	**18.002.677**	**18.099.283**
Off-balance sheet items	**13.006.226**	**3.688.729**	**23.237.003**	**2.230.256**
Total RSF				**256.367.003**
Net Stable Funding Ratio (%)				**168%**

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	-	-	**24.585.186**	**24.585.186**
Own funds			24.585.186	24.585.186
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**	**18.519.819**	**41.252.750**
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 and other liabilities	38.719.382	5.770.790	18.519.819	40.764.905
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 Group 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 Group.
- 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.
- 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 Group's business and can ultimately cause significant losses for its customers, employees and shareholders. The Group pays particular attention to operational risk management practices into all areas of the business process.

The Group, through 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
- Is responsible for monitoring and recommending appropriate mitigation strategies for managing key operational risks and issues
- Establishes 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 ensures that all relevant and external operational risk regulatory requirements are met.

The Internal Audit Division Independently reviews the Bank's operational risk management policy and ensures 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 Group, through 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 pursues 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.

9.3. Monitoring (Procedures, Systems and Mitigating Techniques)

In order for the Group to have an efficient operational risk management framework and minimise operational loss events at the greatest extent possible the Group, through 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 operations.

In more detail, 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 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.

In addition, 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 a 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, minimises 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 Group 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 Group performs an ICAAP report once a year, which amongst others involves assessment and stress testing of operational risk.

The 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 are assessed:

Inherent Risk Types	The following risk type categories are 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 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 organization 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 Group 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.

9.5. Capital Requirements

The Group 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 Remuneration Policy is to provide an effective framework for determining, implementing, overseeing and amending, whenever required, the remuneration, both fixed and variable, of the employees. The Policy defines important relevant terminology, outlines the responsibilities of all relevant stakeholders, and identifies the principles to be followed, ensuring that the Policy is, at all times aligned with the risk appetite, values and long-term interest of the organisation. The Policy is fully compliant with all relevant local and international legislation.

10.2. Principles

The Group, through 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 gender neutral, based on equal pay for male and female employees for equal work or of equal value.
- Is in line with the business strategy, objectives, values and long-term interests of the Bank, and incorporates measures to avoid conflicts of interest.
- Is transparent. The remuneration policy is internally disclosed to all staff and accessible for all staff at all times.

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. The Policy is subject to both central review, which is performed by the Internal Audit Function, and periodic independent review, which may be partially or totally outsourced.

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) 2021/923, 25 March 2021.
- The list of identified staff is periodically updated during the year and when deemed necessary.
- The Bank keeps records of the identification process and is in a position to provide relevant clarifications and explanations 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

- Where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual, the business unit / department concerned, and the Bank's overall results, and take into account the risks taken. When assessing individual performance both financial and non-financial criteria are taken into account.
- The total variable remuneration does not limit the Bank's ability to strengthen its capital base.
- Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle. Guaranteed variable remuneration is exceptional, occurs only when hiring new staff and where the Bank has a sound and strong capital base, and is limited to the first year of employment.
- Fixed and variable components of total remuneration are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to allow the Bank to have a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.
- The measurement of performance used to calculate variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required.
- The allocation of the variable remuneration components takes into account all types of current and future risks.
- Any variable remuneration is awarded after the end of the accrual period, which is at least one year.
- The variable component does not exceed 50% of the fixed component of the total remuneration for each individual. The BoD may approve a higher maximum level of the ratio between the fixed and variable components of remuneration, provided the overall level of the variable component does not exceed 100% of the fixed component of the total remuneration for each individual.
- Payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct.

7. Identified Staff:

Additional principles apply for identified staff, including the following:

- The assessment of the 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 of remuneration is spread over a period which takes into account the Bank's underlying business cycle and its business risks.
- The measurement of performance used to calculate variable remuneration components, or pools of variable remuneration components, includes an adjustment for all types of current and future risks, and takes into account the cost of the capital and the liquidity required.
- 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 5 years.
- The variable remuneration, including the deferred portion, is paid or vests only if it primarily reflects sustainable and risk adjusted performance, according to the financial situation of the Bank as a whole, and justified on the basis of the Bank's performance, the business unit / department, and the individual concerned.
  In this context, the total variable remuneration shall be considerably contracted where subdued or negative financial performance of the Bank occurs, taking into account both current remuneration and reductions in pay-outs of amounts previously earned, including through malus or clawback arrangements,
- Up to 100% of total variable remuneration may be subject to malus or clawback arrangements if the individual has participated in, or was responsible for, conduct which resulted in significant losses to the Bank, and/or failed to meet appropriate standards of fitness and propriety.
- Variable remuneration for identified staff is paid 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 proportional to their powers, tasks, expertise and responsibilities.
- The remuneration of the non-executive members of the BoD is fixed only, so as to properly address conflicts of interest. The reimbursement costs (e.g. travelling costs) is considered as fixed remuneration.
- In exceptional cases when non-executive members of the BoD are awarded variable remuneration, the variable remuneration and the 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:

- 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.
- Ensures that the remuneration policy and practices of the Bank are subject to a central and independent internal review, at least annually. The review should include an analysis of whether the remuneration policy is gender neutral.
- Ensures that members of staff involved in the design, review, and implementation of remuneration policies and practices have relevant experience and are able to form an independent opinion on the appropriateness of remuneration policies and practices, including their suitability for risk management.
- Has adequate financial resources and unfettered access to all information and data from independent control functions, including risk management.

- Ensures the proper involvement of the independent control and other relevant functions (e.g. human resources, legal and strategic planning), within their respective areas of expertise and, where necessary, seek external advice.

10.3. Fees and Emoluments of Members of the Board of Directors

The tables below present fees and emoluments towards members of the Board of Directors and key management personnel of the Group 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:

Template - EU REM1 - Remuneration awarded for the financial year

2022			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	3	8
2		Total fixed remuneration	133.979	360.160	240.156	400.169
3		Of which: cash-based	133.979	360.160	240.156	400.169
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	3	8
10		Total variable remuneration	-	-	-	1.000
11		Of which: cash-based	-	-	-	1.000
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**		**133.979**	**360.160**	**240.156**	**401.169**

2021			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	3	19
2		Total fixed remuneration	143.124	359.148	239.556	927.869
3		Of which: cash-based	143.124	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	9	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**		**143.124**	**359.148**	**239.556**	**928.179**

- The list of identified staff for 2022 has been revised and hence there are differences compared to the identified staff for 2021.

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

2022		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										22
2	Of which: members of the MB	9	2	11							
3	Of which: other senior management				-	1	-	2	-	-	
4	Of which: other identified staff				-	-	-	4	4	-	
5	Total remuneration of identified staff	133.979	360.160	494.139	-	90.560	-	361.274	189.491	-	
6	Of which: variable remuneration	-	-	-	-	-	-	1.000	-	-	
7	Of which: fixed remuneration	133.979	360.160	494.139	-	90.560	-	360.274	189.491	-	

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										33
2	Of which: members of the MB	9	2	11							
3	Of which: other senior management				-	1	-	2	-	-	
4	Of which: other identified staff				-	9	-	6	4	-	
5	Total remuneration of identified staff	143.124	359.148	502.272	-	468.445	-	490.130	209.160	-	
6	Of which: variable remuneration	-	-	-	-	-	-	310		-	
7	Of which: fixed remuneration	143.124	359.148	502.272	-	468.445	-	489.820	209.160	-	

11. LEVERAGE RATIO

11.1. Definition of Leverage Ratio

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 (e.g. loans), from increases in provisions etc.

The Group's leverage ratio for year end 2022 is significantly above the regulatory minimum of 3%. The main reasons for the total exposure increase are due to the increase in loans and advances and the increase in cash and balances with Central Banks as a result of the increase in customer deposits in the year.

11.3. Disclosure

EU LR2 – LRCom: Leverage ratio common disclosure

Item	Leverage ratio exposure	
(€'000)	2022	2021
On-balance sheet exposures		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	485.031.936	431.063.267
Asset amounts deducted in determining Basel III Tier 1 capital	-1.135.745	-1.072.573
Total on-balance sheet exposures	**483.896.191**	**429.990.694**
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	39.931.957	41.841.351
Adjustments for conversion to **credit equivalent amounts**	-24.454.896	-25.148.402
Off-balance sheet items	**15.477.061**	**16.692.949**
Capital and total exposures		
Tier 1 capital	44.986.664	24.585.186
Total exposures	**499.373.252**	**446.683.643**
Leverage ratio		
	9,01%	**5,50%**

Key Leverage Metrics	a	b
	31 Dec 2022	31 Dec 2021
	€	€
Leverage ratio		
Total exposure measure	499.373.252	446.683.643

Leverage ratio (%)	9,01%	5,50%
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 35 of the Annual Financial Report for 2022.

As at 31 December 2022, the Group had no encumbered assets.

13. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

13.1. Basis of preparation of the Financial Statements

The consolidated 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 consolidated financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements.

The financial statements are presented in Euro (€) and have been prepared under the historical cost convention, as modified by the revaluation at fair value of financial instruments at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"), and land and freehold property held for own use.

Going concern

The Group's consolidated financial statements have been prepared on a going concern basis following the assessment performed by the Company's Board of Directors and Management on the Group'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 consolidated financial statements.

13.2. Adoption of new and revised IFRSs

During the current year, the Group 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 2022. The adoption of these new and revised standards and interpretations did not have a material effect on the accounting policies of the Group.

At the date of approval of the consolidated financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2023, 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 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)	1 January 2023
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)	1 January 2023

Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)	1 January 2023

b) Not yet adopted by the EU

Standard / Interpretation	**Effective for annual periods beginning on or after**
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022)	1 January 2024

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

14. APPENDICES

14.1. Glossary

ALCO	Assets and Liabilities Committee
Bank	Ancoria Bank Limited
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
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
ICT and SRMF	Information and Communication Technology and Security Risk Management
LCR	Liquidity Coverage Ratios
LR	Leverage Ratio
NPE	Non-Performing Exposure
NSFR	Net Stable Funding ratio
MLCO	Money Laundering Committee
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	ICT and SRM	RC	Quarterly
5	Quarterly Internal Auditor's Report	IAF	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	ICT and SRM	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 3

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
Template 1 – EU CQ1	Credit quality of forborne exposures - EBA/GL/2022/13 amending EBA/GL/2018/10	Section 6.8
Template 3 – EU CQ3	Credit quality of performing and non-performing exposures by past due days - EBA/GL/2022/13 amending EBA/GL/2018/10	Section 6.8
Template 4 – EU CR1	Performing and non-performing exposures and related provisions- EBA/GL/2022/13 amending EBA/GL/2018/10	Section 6.8
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 article

CRR Ref.	Title	Compliance Reference (Document Sections)
General principles		
Article 431	Requirements to publish Pillar 3 disclosures requirements	Publication on Bank's website.
Article 432	Non-material, proprietary or confidential information based on EBA Guidelines	Introduction – Materiality Introduction – Verification, frequency and publication
Article 433	Frequency of disclosure and publication in conjunction with the date of publication of the financial statements	Introduction – Verification, frequency and publication
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