RCB BANK LTD

Pillar III Disclosures 2017

2017

RCB BANK LTD

Pillar III Disclosures 2017

Contents

1. Introduction

The Pillar III Disclosures of RCB BANK LTD ("the Bank" or "RCB") have been prepared in accordance with the Capital Requirements Regulation EU 575/2013 ("CRR"), amended Capital Requirements Directive 2013/36/EU ("CRD IV") and subsequent EU guidelines. The Basel regulatory framework has been implemented in the EU via the Capital Requirements Directive (CRD) and Capital Requirements Regulation which came into force as of 1st of January 2014. The Pillar III Disclosures of the Bank are published on the Bank's website.

2. Information on the scope on the application of the regulatory framework

The principal activities of the Bank are the provision of banking services on the basis of the license granted by the Central Bank of Cyprus and is required to comply with the Cyprus Banking Law, the Directives issued by the Central Bank and the EU Directives implemented by the Republic of Cyprus. Since November 2014, the Bank is supervised by the European Central Bank under the Single Supervisory Mechanism as it was identified as a significant financial institution within the Eurozone.

The Bank wholly owns the following subsidiaries, which are incorporated and domiciled in Cyprus: RCB Trustees (Cyprus) Limited, RCB Credit System LTD, RCB Finance LTD. The indirect wholly owned subsidiary, LSA Finance DAC, is incorporated and domiciled in Ireland. RCB Trustees (Cyprus) Limited is the only active subsidiary of the Bank; other subsidiaries remain dormant. For prudential purposes consolidation of the directly and indirectly own subsidiaries is not necessary; thus these did not have an impact on the Bank's Pillar III.

RCB has applied the requirements of CRR and CRD IV since its implementation. The framework consists of three pillars as follows:

Pillar 1: covers the calculation of risk weighted assets for credit risk, counterparty credit risk, market risk and operational risk.

Pillar 2: covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations. Bank's own internal methodologies and assessment along with the supervisory guidelines, support this process.

Pillar 3: covers external disclosure of the risk and capital information required by banks as specified in the CRR and CDR IV rule to promote transparency and appropriate risk management.

3. Materiality and Confidentiality

The Bank has not omitted any disclosures on the grounds that the information may be proprietary or confidential.

4. Risk management objectives and policies

4.1. General information on risk management, objectives and policies

The business model of the Bank is based on providing commercial and investment banking services, especially through its lending activities accompanied with active use of credit risk mitigation tools. In general the Bank has a moderate risk appetite. The risk appetite of the Bank is defined in the "Risk Strategy and Appetite Statement" approved by the Management Body (hereinafter "MB").

The Bank implements an appropriate and holistic risk management framework, which ensures that all material risks are identified and managed on a basis of adequate and effective policies, systems, processes and procedures. An integrated and institution-wide risk culture, based on a comprehensive understanding of the undertaken risks, is developed through the Bank's policies, including examples, the "Risk Strategy and Appetite Statement", as well as communication and training of staff regarding their responsibilities for identifying and managing risk.

The MB oversees the Bank's framework for the treatment of risk through the Risk Appetite and Risk Strategy which is in accordance with the business strategy of the Bank. The Bank prepares the Risk Adequacy Statement which "translates" the view of the MB as regards the risk management arrangements of the Bank, providing also assurance that the risk management systems in place are adequate given the Bank's profile and strategy.

The MB activities are supported by the Risk Committee ("RC"). The RC met twelve times during 2017. There are also four independent departments/units operating in the Bank which oversee the internal controls of the Bank: the Risk Management Department ("RMD"), the Compliance Department, the Information Security Unit and the Internal Audit Department (jointly the "control functions").

The control functions of the Bank are responsible for the identification of problems relating to the Bank's risk management and internal control systems and ensure that the Bank's systems represent fairly the financial position and profitability of the Bank. These functions collaborate where necessary to ensure that the risks assumed by the Bank are consistent with the Bank's strategy and business profile.

During 2017, there were no changes in the heads of risk management, compliance and internal audit. Nonetheless, during 2017 the Bank filled in the position of the Chief Risk Officer ("CRO"), in accordance with best governance practices and relevant recommendations by the regulators, which is expected to further contribute to the better understanding of the Bank's overall risk profile and the improvement in the overall risk culture of the Bank. Furthermore, the CRO has been empowered with the right to veto decisions taken by the Credit, Assets and Liabilities Committee ("CALCO").

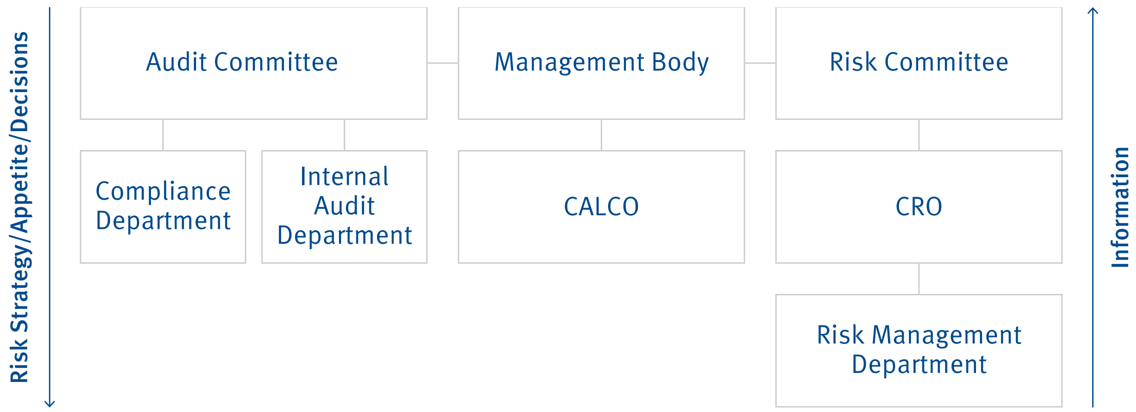
The risk management framework implemented by RCB complies with the standards set by the CBC and the ECB.

The risk management organizational structure

The RMD is an independent department within the Bank. The RMD is functionally reporting to the MB through the RC. The RMD deals with credit risk, market and interest rate risks, operational risk and liquidity risk. The RMD consists of two units, the Credit Risk Underwriting unit and the Risk Control unit. The Underwriting unit provides an independent opinion for the credit risk undertaken by the Bank. The Control unit is responsible for the monitoring, reporting and control of the market and interest rate risk, operational risk and liquidity risk.

The Bank has a relatively flat structure. Figure 1 presents the risk management governance structure.

Figure 1: Risk Management Governance Structure



The organizational structure of the Risk Management Department of the Bank is presented in Figure 2.

Figure 2: Organizational Structure of the Risk Management Department of the Bank

Chief Risk Officer

- Has the overall responsibility for the Risk Management Function of the Bank;
- Reports to the Management Body through the Risk Committee.

Risk Manager

- Has the overall responsibility for the Risk Management Department;
- Reports to CRO.

Credit Risk Underwriting Unit
Deputy Risk Manager

- Responsible for the assesment of the credit risk undertaken by the Bank;
- Supervises 5 employees.

Risk Control Unit
Deputy Risk Manager

- Responsible for the monitoring, reporting and control of the other risks of the Bank;
- Supervises 4 employees.

The Bank's business model assumes credit risk primarily in its core activity of lending. The Bank follows conservative approach in credit risk taking. The credit granting process of the Bank is based on sound criteria, comprehensive assessment and thorough discussion of risks to be assumed. Careful balancing of strategic target achievement and keeping risks within the acceptable risk appetite is a key consideration in the Bank's credit risk taking.

The risk strategy and a fundamental high-level attitude of the Bank towards all risks, including credit risk, are defined in the Bank's "Risk Strategy and Appetite Statement". The Bank has a moderate appetite for credit risk and the amount of credit risk which might be undertaken by the Bank is restricted by the integrated risk appetite indicators as defined in the same document.

Credit, Assets and Liabilities Committee has authority for approving individual limits and/or decide on transactions involving credit risk within the credit risk limits approved by the Management Body. All credits to related parties of the Bank must be approved by the Management Body. Additionally, CALCO is authorized to set personal approval limits for appropriate staff for specific types of transactions related to the engagement in credit risk.

An effective risk appetite framework is used by the Bank to clearly articulate the aggregate level of risk and types of risk the Bank is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

The Bank sets its risk appetite and strategy specifically for each risk type through the policies, controls and procedures that are established and is communicated throughout the organization.

On the basis of its risk appetite the Bank develops a detailed list of indicators and the corresponding reference values, which provide integration of the Bank's risk appetite in the day-to-day decision making process and into the Bank-wide risk management framework. The risk appetite indicators are reviewed and updated as part of the business planning and budgeting process, as well as based on the results of the stress tests. Risk appetite is reviewed annually, or more frequently if deemed necessary. The risk appetite of the Bank may be updated in the case of a significant change in the economic situation of the Bank, the revision of its strategic direction, as well as due to the actual performance of the Bank, amendments of legislation and regulatory requirements.

The risk control framework consists of qualitative and quantitative components. Qualitative elements include policies, procedures, authorities and reporting requirements. Quantitative components include risk measures and limits in a variety of forms (including stress tests and other risk quantification techniques). The risk limit system has a two-level structure:

- **First Level:** Framework limits, which are used to describe RCB's risk appetite. The Framework limits are approved by the MB;
- **Second Level:** Operating limits, which are used to control the day to-day risk taking activities of RCB. Operating limits are approved by RC and the CALCO.

The Bank defines its high-level risk appetite through the following qualitative standards:

- The potential losses related to the risks undertaken by the Bank should not reach a level that leads to the interruption of operational activities of the Bank;
- The Bank must have capital (own funds) sufficient to absorb unexpected losses in case of realization of extremely unlikely risks;
- At any time, the Bank should be able to meet its payment obligations when they fall due;
- The Bank aims to avoid high credit risk concentration to counterparties, industries, collateral types and countries with a high level of risk;
- The Bank adheres to compliance culture and high business standards to ensure full compliance with regulatory requirements;
- RCB's business model is built on trust of customers, thus the Bank avoids risks that may have a devastating impact on the Bank's reputation;
- The Bank aims at maintaining and improving the credit ratings assigned to it by the international rating agencies.

In quantitative terms the Bank expresses its risk appetite in the terms of capital, credit, market, liquidity, asset quality and operational indicators. The Bank revised its Risk Appetite Indicators in September 2017. The quantitative ratios that express the MB's risk profile include, among others, the following:

- **Capital Indicators:** a) Common Equity Tier 1 Ratio (%); b) Total Capital Ratio (%); c) Leverage Ratio (%),
- **Credit Indicators:** Probability of default for performing own risk portfolio (%); Expected losses for performing own risk portfolio (%); Cost of risk (own risk portfolio) (%); NPL ratio for own risk portfolio (%); Top - 10 borrowers (% of own risk credit portfolio),
- **Market Indicators:** a) Quarterly stop loss on trading book; b) PV01 (bps) - Treasury portfolio; c) PV01 (bps) - Global Markets Portfolio; d) Value at Risk 1W -99%,
- **Liquidity Indicators:** a) Liquidity Coverage Ratio (%); b) Survival days; c) Stress Liquidity Coverage Ratio (%); d) Net Stable Funding Ratio (%),
- **Asset Quality Indicators:** a) LTD Ratio (%); b) Earnings at Risk (% own funds); c) Economic Value Perspective (% own funds),
- **Operational Indicators** include cumulative losses for the last year for operational risk.

During 2017 the Bank demonstrated strong ability to meet its payment obligations. There were no events faced by the Bank which were able to lead to the interruption of its operational activities. The Bank has remained within its risk profile with no red Risk Appetite limits being exceeded during this period. The Bank's Capital and Liquidity Indicators were much higher than regulatory and internal thresholds. All assets quality indicators were at green level as well. The Bank has a very conservative market risk appetite, which is confirmed with green level of all market indicators.

Stress Testing

The Bank, in accordance with the "Stress testing Programme", uses stress testing as an important risk management tool which is used for assessing its potential vulnerability in terms of its capital adequacy, liquidity adequacy and profitability given stressed conditions. Its results are used to formulate decision making at all appropriate management levels of the Bank. The Management Body or CALCO may take appropriate management actions based on the stress testing results, including:

- Reviewing the set of limits;
- Using specific risk mitigation techniques;
- Reducing exposures or business in specific sectors, countries, regions or portfolios;
- Reconsidering the funding policy;
- Reviewing capital and liquidity adequacy;
- Reviewing strategy;
- Developing contingency and recovery and resolution plans;
- Reviewing the risk appetite and determining whether the Bank's exposures are commensurate with it.

The Bank adopts an integrated approach to stress testing and conducts the program on a consolidated basis, providing a spectrum of perspectives at portfolio and risk specific levels and covering all material risks, in order to deliver a complete and holistic picture of the risks. Consideration is also given to correlations between the risks the Bank faces.

The Bank determines appropriate time horizons for its stress tests which vary depending on the risk characteristics of the exposures being analysed and the purposes of the specific stress test.

Based on the current risk profile of the Bank, the following risks, which correspond to specific portfolios, are the main risks faced by the Bank and stressed in accordance with the "Stress testing Programme":

- Credit risk to corporates;
- Credit risk to financial institutions;
- Counterparty credit risk;
- Foreign exchange risk;
- Interest rate risk in the Bond Portfolio;
- Interest rate risk in the Banking Book;
- Liquidity risk;
- Operational risk.

In order to achieve comprehensive coverage for its stress testing programme the Bank uses a range of quantitative techniques which are appropriate for and commensurate with the nature, scale and complexity of its business activities and the associated risks. This includes scenario analysis, sensitivity analysis and reverses stress tests. The quantitative techniques are supplemented by qualitative analysis and/or expert judgement where necessary.

The Bank performs sensitivity analyses for specific portfolios or risks.

For the design of the sensitivity analysis the Bank firstly identifies the relevant risk drivers which reflect the risk characteristics of its business model, risk profile and transactions, in particular: macro-economic risk drivers (e.g. interest rates), credit risk drivers, financial risk drivers (e.g. increased volatility in financial instruments markets) and external events (e.g. operational risk events, market events, events affecting regional areas or industry sectors etc.).

For the purposes of stressing liquidity risk, the Bank performs 3 stress scenarios: idiosyncratic stress shocks; market-wide stress shocks and combined stress shocks, which identify the impact on the Bank's net cumulative cash flow.

In addition to its regular stress testing, the Bank conducts ad hoc stress tests on specific areas whenever this is necessary (e.g. under worsening conditions) or requested internally. Stress testing is also an integral component of the Bank's ICAAP and ILAAP and is used extensively to inform the Bank's business decisions as well as its strategic planning including on the Bank's capital and liquidity position.

Furthermore, the Bank uses its internal stress tests as a foundation for the scenario planning of its Recovery Plan. More specifically, the Bank takes into account the relevant assumptions and results for the development of scenarios which would lead the Bank to "near-default", requiring the implementation of recovery options to restore its viability within a predefined timeframe.

Supervisory stress tests are conducted by the Bank whenever requested by the regulators. These are based on common stress scenarios and aim to identify potential sources of risk to macroeconomic or market vulnerabilities and the associated management actions required to address any resulting supervisory concerns.

In order to achieve comprehensive coverage for its stress testing programme the Bank uses a range of quantitative techniques which are appropriate for and commensurate with the nature, scale and complexity of its business activities and the associated risks. This includes scenario analysis, sensitivity analysis and reverses stress tests. The quantitative techniques are supplemented by qualitative analysis and/or expert judgement, where necessary.

Reporting

The Bank's reporting is central around helping it to identify, review and management all material risks; the reporting lines in place as well as the report in place, are amongst others, the following:

Report	Frequency	Owner	Recipient
Risk Dashboard Report	Monthly	RMD	CALCO, RC
Risk Management Report	Quarterly	RMD	MB
CALCO Report	Quarterly	CALCO	MB, RC
Capital Adequacy Report	Daily	RMD	ACBD
Risk Reports, Event Reports	Monthly	RMD	MB
Non-performing and forbearance loans (watch list)	Monthly	RMD	CALCO, RC
End of day liquidity report	Daily	ACBD	CBC
Report on deposits and lending	Weekly	ACBD	CBC
Additional liquidity data	Weekly	ACBD	CBC
Prudential liquidity report in all currencies	Quarterly	ACBD	CBC
LCR report (as part of COREP)	Monthly	ACBD	CBC, ECB
COREP	Quarterly	RMD	CBC, ECB
NSFR report (as part of COREP)	Quarterly	ACBD	CBC, ECB
Large Exposures (as part of COREP)	Quarterly	RMD	CBC, ECB
ICAAP & ILAAP Report	Annually	RMD	ECB, CBC, MB, RC, CALCO
Pillar III Disclosure	Annually	RMD, HR	MB, RC
Short-term exercise for the SSM	Quarterly	RMD, ACBD, BPMIS	ECB
Recovery Plan	Annually	RMD	MB, RC, ECB, CBC

Capital allocation and planning

The Bank uses the ICAAP as an input for capital assessment by identifying the risks to which it is exposed to and the corresponding capital needs with respect to these. Additionally, the ICAAP serves as a tool for the allocation of capital in the various business lines.

Capital allocations are reviewed in response to changes in risk appetite and the business and risk strategy of the Bank, changes to the commercial environment or when additional capital requests are received from Business Divisions. The capital allocation process is linked and interdependent with the business planning process, with the outcome of each process being used to inform the decision making of the other process.

The Bank aims to maintain sufficient capital resources that will enable it to achieve its business objectives. Therefore the Bank prepares a capital plan that identifies the capital needs of the Bank given the business plan.

The Bank's risk management strategies and processes as well as the policies for hedging and mitigating the risks it faces are discussed below.

4.2. Information on risk management, objectives and policies by category of risks

4.2.1. Credit Risk

4.2.1.1. Credit Risk management and Capital Management

Credit risk arises from all transactions where actual or potential claims against any borrower, counterparty, or obligor exist, and is sought selectively as it is only by taking appropriate levels of risk that the Bank can make a profit. Credit risk is defined within the Bank as the potential failure of a borrower or counterparty to meet its contractual obligations.

The Bank's business model assumes credit risk-taking primarily in its core activity of lending. The Bank follows a conservative approach in credit risk taking. The credit granting process of the Bank is based on sound criteria, comprehensive assessment and thorough discussion of risks to be undertaken. Careful balancing of strategic target achievement and keeping risks within the risk appetite levels is a key consideration in the Bank's credit risk-taking.

The risk strategy and a fundamental high-level attitude of the Bank towards all risks, including credit risk, are defined in the Bank's "Risk Strategy and Appetite Statement". In accordance with the "Risk Strategy and Appetite Statement", the Bank has a moderate appetite for credit risk and the amount of credit risk which might be undertaken by the Bank is restricted by the integrated risk appetite indicators as defined in the same document.

The MB is responsible for approving the credit policy of the Bank while the CALCO considers and decides on applications for granting credit facilities within the limits set by the MB. The RMD assesses the adequacy and effectiveness of the credit risk management strategies and procedures followed by the Bank, recommends changes where necessary and reports to the MB through the RC and senior management on the credit risk position of the Bank on a quarterly basis or more frequently if necessary.

The Bank manages credit risk exposures by performing an analysis of the borrower and assessing the adequacy of the collateral to be obtained under the credit transactions. In addition, a limit system exists for transactions with bank counterparties limiting the exposure of the Bank to credit risk.

Credit risk arising from the banking activities is monitored on a continuous basis and is subject to at least an annual review. All new exposures and operating limits are approved by the CALCO.

The Bank grants the Chief Risk Officer the right to veto credit decisions made by CALCO, with the grounds for objection to be formally documented in the minutes of the relevant CALCO meeting. In case the veto right is applied by the Chief Risk Officer, the vetoed decision can be escalated to the RC for confirmation or overruling of the CRO's veto and should be reported to the Management Body of the Bank. In case of the overruling by the RC, the matter can be further escalated to the Management Body of the Bank for final decision.

An approval of the RC is required for own risk credit facilities with exposure equal to or exceeding EUR50mln.

The interaction of business departments with compliance, internal audit, risk control for credit risk purposes is described under the "Loan granting procedures", since the control functions and business departments need to cooperate for a recommendation on credit granting, and thus assumption of credit risk, to be made. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Exposures to credit risk are subject to the detailed credit analysis performed by the Corporate and Investment Business Department/Corporate and SME Lending (Cyprus) Department. Following the review and issue of recommendations by the Corporate and Investment Business Department/ Corporate and SME Lending (Cyprus) Department, the Compliance, the Security Department and the Risk Management Department also present their assessment of the credit transaction, submitting this for review to the CALCO. The assessment and opinion of the Legal Department is also sought.

During 2017, the exposure to credit risk was moderate as the vast majority of the loans and advances to customers were collateralized by guarantees from shareholders or cash deposits. The majority of the loans covered by guarantees from shareholders are also secured by obtaining third-party collateral, including securities, personal guarantees, and mortgages on property. The Bank uses independent appraisers to estimate the market values of collateralized properties. As regards guarantees the creditworthiness of the guarantor is always considered when obtaining such collateral, to ensure adequate credit risk mitigation.

The Bank grants credit mainly to corporate counterparties and assigns an internal risk rating for each borrower according to internal methodology. Internal ratings are calculated through the Moody's RiskAnalyst ("MRA") system, developed by Moody's Analytics which specializes on the calculation of internal ratings for Borrowers.

Subcategories of Credit Risk

The Bank distinguishes the following sub-categories of credit risk:

- Credit concentration risk;
- Counterparty and settlement risk;
- Country risk;
- FX lending risk; and
- Specialized lending.

Credit Concentration risk

Concentration risk arises from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer.

The following categories of credit concentration risk are recognized by the Bank:

- Single-name concentrations (including group of connected clients);
- Industry concentrations;
- Geographical concentrations;
- Product concentration; and
- Collateral and guarantees concentration.

For the purposes of managing and monitoring concentration risks the Bank has established appropriate limits, a thorough monitoring and reporting framework, as well as appropriate measures and methodologies for the allocation of capital.

Counterparty and settlement risk

The counterparty credit and settlement risks faced by the Bank arise from exposures to derivatives and transactions in financial instruments.

The Bank calculates the exposure value for over-the-counter ("OTC") derivatives, which attract counterparty credit risk, in accordance to Part Three, Title II, Chapter 6, Section 3 of the CRR. The exposure calculation is a two-step approach as denoted in "Capital adequacy procedures" and depends on the market value (if positive), the type of contract and the maturity of the contract.

- **Step (a):** by attaching current market values to contracts (mark-to-market), the current replacement cost of all contracts with positive values is obtained.
- **Step (b):** by obtaining a figure for potential future credit exposure, the notional amounts or underlying values are multiplied by the percentages presented in the "Capital adequacy procedures".

The sum of the current replacement cost and potential future credit exposure is the exposure value of the derivative.

With regards to counterparty risk, this is controlled by careful selection of counterparties following a thorough credit quality assessment, the complexity of the financial instruments in which the Bank transacts as well as careful consideration of the potential future exposure given the underlying financial instrument and the relevant market factors and characteristics. Additionally, the Bank mitigates this risk by estimating and allocating capital to take into account counterparty risk and the Credit Valuation Adjustment ("CVA") risk, in accordance with the provisions of the CRR.

With regards to settlement risk, the Bank manages this risk by making a wide use of delivery versus payment settlement arrangements as well as netting agreements.

Country risk

In order to correctly capture country risk for its exposures, the Bank considers both "country of incorporation" and "country of risk" of its borrowers, given that ultimate risk may sometimes lie in a country which is different to the borrower's country of residence.

For the purposes of comprehensively assessing country risk, the Bank carefully considers important factors such as the economic climate, political situation, regulatory framework and institutional framework of the underlying country to which the risk of the exposure lies.

FX lending risk

FX lending risk relates to the current or prospective risk to the Bank's earnings and own funds arising from FX lending to unhedged borrowers. The additional risk arises when a credit facility is granted to a borrower in a currency different from the borrower's currency of income/inflows and is considered in the case of unhedged borrowers i.e. retail and SME borrowers without a natural or financial hedge.

For the purposes of monitoring this risk the Bank assesses the materiality of debt denominated in a currency different to the currency of collateral or payment flows.

Specialized lending

Specialized lending is treated separately from other lending activities since the risk of such exposures lies in the profitability of the asset or project financed (e.g. commercial real estate, energy plant, shipping, commodities, etc.) rather than the borrower (which is generally a special purpose vehicle) and the financing is usually more significant in monetary terms and longer term.

Credit risk Provisioning

Provisioning is an important component of the Bank's credit risk management framework. The Bank has adopted sound credit risk practices to ensure correct identification of all credit facilities requiring provision and timely recognition of adequate provisions.

Following introduction of new accounting and reporting standards the Bank has applied all the necessary arrangements for the smooth transition from IAS 39 standard to the revised IFRS 9 standard, which is effective from 1st of January 2018.

In contrast to IAS 39, according to which loss allowances are measured based on an incurred loss model, the IFRS 9 "forward-looking" impairment model requires the Bank to regularly update and recognize Expected Credit Losses ("ECL") for financial assets from the initial acquisition or origination day. The ECL model should result in the earlier recognition of credit losses.

The Bank applies the ECL model by breaking the total loss amount modelling into four parts: probability of default, loss given default, exposure at default, and expected life estimation (for the lifetime expected credit loss calculation). Expected losses are estimated under a compliant set of scenarios which consider forward looking information, including macroeconomic factors which are developed in a way as to result in estimates that reflect an unbiased consideration of all relevant factors, including external factors as well as factors intrinsic to the Bank.

Under the revised standard each asset is classified into one of three buckets or stages on each reporting date. At the origination day, all assets are assigned to Stage 1, and the expected credit losses are recognized for the next 12 months. Following the initial recognition, the credit risk is re-evaluated at each reporting date. If the risk increases significantly, the asset is assigned to Stage 2, and expected losses are recognize until maturity (lifetime expected credit losses). Finally, when the asset is considered “credit-impaired,” i.e. close to or in default, it is allocated to Stage 3.

Capital Management of the Credit Risk

The Bank has a documented Capital Management Policy which sets out the foundations, principles and structure for the capital management at the Bank. Capital management refers to the measures implemented to maintain sufficient capital, assess the Bank’s internal capital adequacy and calculate the capital ratios.

The main objective of capital management is to determine the amount, type and composition of capital necessary to enable the Bank to meet its business targets and sustain development, while also withstanding stress events. Nonetheless, it is important for the Bank to ensure that the available capital does not become less than the prudential requirements set by the ECB and CBC. Capital management is performed centrally, since the Bank does not have any material subsidiary or overseas branch that requires capital to be allocated to it.

The Bank quantifies and holds the capital against risks that are specified under the Pillar 1 requirements of the Basel III regime. These risks include credit, counterparty, market and operational risks. In addition, the Bank seeks to capture in its capital plans those risks for which an explicit regulatory capital treatment is not available, such as positions that result in concentrated exposures to a type of counterparty or industry, interest rate risk in the banking book, etc.

A comprehensive process is in place to regularly and systematically identify, and understand the limitations of the Bank’s risk quantification and measurement methods. For risks that are more difficult to quantify, assumptions made in the estimation process, are widely discussed and understood by Senior Executive Management to ensure that the potential negative impact on the Bank (resulting from these assumptions) is not underestimated.

With regards to the capital assessment in relation to credit risk, this task forms part of the Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”). A fundamental component of the ICAAP is the identification and assessment of the various material risks to which the Bank is exposed to, including credit risk and its subcomponents, and the allocation of sufficient capital as mitigant.

Credit Risk is covered under the Pillar 1 component of the ICAAP, which comprises of the Bank’s regulatory capital needs in relation to credit risk. Based on the internal capital methodology followed the capital needs identified are less than the Standardized Approach under Pillar 1.

Concentration risk is covered under the Pillar 2 component of the ICAAP, which comprises of the Bank’s internal capital assessment for risks which are not captured under Pillar 1. The Herfindahl-Hirschman Index is applied for the measurement and quantification of concentration risk.

4.2.1.2. Policies mitigating credit risk

The Bank uses a number of credit risk mitigation ("CRM") tools in order to control credit risk such as:

Subcategory of credit risk	Controls in place/Mitigation
Credit Risk (or default risk)	- RCB maintains controls according to the "Risk Strategy and Appetite Statement" for credit exposures to corporates and credit institutions. - The "Credit Risk Policy" describes the boundaries for cash collateralized lending and the credit procedure. - The Bank has a robust credit granting process which includes credit analysis by the business departments and review by the risk management department.
Counterparty Credit Risk	- The Moody's Risk Analyst credit rating software is implemented. - Limits for credit granting to individuals and corporate applicants are in place. - Limits for banks and non-bank financial institutions for money market/FX/DVP transactions. - Taking of cash collateral for credit risk mitigation purposes is applied. - Provisioning against non-performing exposures and collective provisions is performed.
Concentration Risk	- RCB maintains controls for sectoral concentration risk according to the "Credit Risk Limits Procedures". Analysis of borrower's industry/sector is made as part of the internal rating process and credit analysis. - RCB maintains controls according to "Credit Risk Policy" and monitors concentration of country risks in accordance with "Credit Risk Limits Procedures". - RCB maintains controls over concentration to collateral according to its "Credit procedure. Working with collateral". Residual risk for non-cash collateral include regular evaluation of that collateral. - There are concentration limits for cash collateralized transactions in place.
Specialised Lending	RCB maintains specific controls and limits for specialised lending including the following: 1. internal rating assigned for investment projects in accordance with "Procedures for internal credit ratings of investment projects"; 2. more frequent monitoring in place; 3. additional collateral requirements; 4. limitations set by CALCO/RC.
Country Risk	RCB maintains controls according to "Credit Risk Policy", and monitors industry and country limits in accordance with the "Risk Limits Procedures".
Migration Risk	RCB maintains controls according to the "Credit Risk Policy".
FX Lending Risk	RCB maintains specific controls and limits for fx lending including the following: 1. additional 15% collateral for fx mismatches 2. additional 20% on DCSR(debt service coverage ratio)

One of the methods applied for the reduction of credit risk is requesting and accepting collateral against credit transactions, whether from the borrower himself or from a third party on the Borrower's behalf. In the event of Borrower default, the existence of collateral will allow the Bank to recover some of the losses it may incur. The pledged collateral, for example real estate property, non-tradable shares, are valued by an independent appraiser. The Bank has a panel of valuers approved by CALCO on an annual basis. The panel includes expertise in various areas of property sector appropriate to the lending business of the Bank. The Bank assigns internal collateral ratings to reflect the level of coverage of the credit transaction by the collateral (i.e. the amount of cash from the sale of the collateral which can be used to repay debt under the client's credit products).

Accepting collateral against a credit transaction includes the following key phases:

- Negotiations with the client, definition of preliminary structure and composition of collateral;
- Collateral assessment;
- Making a decision on the collateral transaction;
- Preparation and approval of collateral documentation, signing credit and collateral documentation (including pledge acceptance);
- Collateral monitoring and revaluation.

It should be noted that the Bank does not make any use of on-balance sheet and off-balance sheet netting neither credit derivative products for mitigating its counterparty risk. The Bank does not use hedging for credit risk.

An impairment review of the Bank's financial assets is carried out on a regular basis. The Bank has adequate procedures and policies in place for the management of problematic loans and loan loss provisions.

In order for the Bank to correctly identify, review and manage risks, a comprehensive reporting framework has been put in place which involves regular reporting with respect to the following:

I. **The Bank's risk position and results of stress tests, with regards to credit risk;**
   - Composition of the loan portfolio (top borrowers, concentration to countries and industries, information on non-performing and forborne loans, as well as the level of loan loss provisions);
   - Credit risk framework and operating limits monitoring;
   - Recommendations for the improvements of lending processes, strategies and policies.

4.2.2. Market risk and Interest Rate risk

4.2.2.1. Market risk and Interest Rate risk management and Capital Management

The market risk management framework is documented in the "Risk Strategy and Appetite Statement" and the "Market Risk and Interest Rate Risk Policy" approved by the MB.

Market Risk encompasses the risk of financial loss resulting from adverse changes in the value of on-balance sheet and off-balance sheet positions arising from movements in market prices across several risk factors including fixed income, equity, foreign exchange and interest rates. Market risk can arise from both trading and non-trading activities. Both are subject to the market risk control framework. Market risks are actively taken as part of trading activities, both proprietary trading and for trading for account of clients. General Market Risk can also arise from non-trading activities as a result of mismatches in the currencies, maturities or interest rate reset dates of assets and liabilities and associated off-balance sheet instruments. The Bank is not exposed to market risk arising from commodity prices.

Interest Rate Risk in the Banking Book is the risk arising from potential changes in interest rates that would affect the profitability of the Bank due to maturity bucket gaps of non-trading assets and liabilities as well as off-balance sheet items.

The MB is responsible for approving the policies for the management of market risk and interest rate risk and specifies framework market risk limits. The RMD assesses the adequacy and effectiveness of the market risk management strategies and procedures followed by the Bank, recommends changes where necessary and reports to the MB through the RC and senior management on the market risk position of the Bank on a quarterly basis or more frequently if necessary.

There are currency and interest rate risk limits in place ensuring better management of market and interest rate risks, as well as compliance with the relevant supervisory regulations.

The Bank is mainly exposed to the following types of market risk:

- Currency risk; and
- Interest rate risk in the trading book.

Currency risk is the risk that the changes in foreign exchange rates will affect the value of the Bank's foreign exchange position and consequently the value of the Bank's balance sheet.

The management of currency risk is performed through monitoring of limits. Limits exist on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Currently these limits for the net open positions in any one currency are set to be more restrictive than the supervisory ones.

The Bank does not hold open positions in any currencies with the view of profiting from exchange transactions. Any foreign currency positions are short-term and for operational purposes.

With regards to **Interest Rate Risk**, monthly monitoring and stress testing is performed for the following two components:

- Interest rate risk in the banking book ("IRRBB"); and
- Interest rate risk in the trading book.

Interest rate risk in the trading book is the risk that changes in the market interest rates will adversely affect the value of the Bank's trading portfolio.

Stress testing for IRRBB is performed taking into consideration all of the Bank's non-trading assets and liabilities, on-balance sheet and off-balance sheet. The effect on the Bank's earnings is used as a short term measure (earnings approach) whereas the change of the Bank's economic value is used as a long term measure (economic value approach).

The management of interest rate risk is performed through the monitoring of limits and stress testing exercises.

The capital requirements calculated for market risk are disclosed in Section 6.1.2.4 of this Report.

Capital Management of Market risk

As part of the ICAAP document, capital required for market risks are also assessed. One of the ICAAP components is the identification and assessment of the market and interest rate risks and the allocation of sufficient capital as mitigant. This analysis is performed in the context of the current and foreseeable operating, business and regulatory environment in which the Bank operates.

Market risk is covered under the Pillar 1 component of the ICAAP. Interest Rate Risk is covered under the Pillar 2 component of the ICAAP, which comprises of the Bank's internal capital assessment for risks which are not captured under Pillar 1.

4.2.2.2. Policies for hedging and mitigating market risk and interest rate risk

The market risk and interest rate risk measurement, monitoring and control framework is implemented with the use of both qualitative and quantitative tools. The former include policies, procedures, authorities and reporting requirements whereas the latter include risk measures, trading controls and limits in a variety of forms (including stress and statistical loss measures, sensitivity and potential loss measures and market values, nominals or notionals as appropriate, restrictions at portfolio level etc.).

For the purposes of stress testing, **market risk** comprises of the following components:

Price Risk - is the risk of losses arising from decrease in value of the Bank's holdings in fixed income and equity securities.

Foreign Exchange Rate Risk - is the risk that changes in FX rates will adversely affect the Bank's profitability by altering the value of assets/liabilities denominated in foreign currencies.

Interest Rate Risk in the Trading Book - is the risk arising from potential changes in interest rates that would affect the profitability of the Bank due to the changes in the market values of its holdings in fixed income securities.

Credit Spread Risk - is the risk arising from changes in the market value of fixed income securities due to fluctuations in their credit spread.

The management techniques in place for the mitigation of market risk are as follows:

Subcategory of Risks	Controls in place/Mitigation
Interest Rate Risk in the Trading Book	- RCB maintains controls according to the "Risk Strategy and Appetite Statement", the "Market Risk Policy" and the "Trading Book Policy Statement". - Stop loss and VaR limits are in place and monitored on a daily basis to ensure that any potential losses that might arise are mitigated.
Foreign Exchange Rate Risk	- Maintenance of controls according to the the "Risk Strategy and Appetite Statement" and the "Market Risk Policy". - The Bank introduced foreign currency exposure limits which are monitored on a daily basis. The limits established for the net open positions in any one currency, are more restrictive than the regulatory ones. - Any foreign exchange risk which arises is managed by entering into forward foreign exchange contracts.
Price Risk	RCB is ready to execute operations with equities and in this case the Bank will maintain controls according to the "Market Risk Policy" and the "Trading Book Policy Statement".
Credit Spread Risk	The Bank performs a thorough assessment and risk analysis of the issues to be included in the Trading Book by examining the instruments' credit quality, duration, country of risk and other important parameters and establishes trading book limits and specific criteria for inclusion in the Trading Book accordingly.

In addition the Bank minimizes the market risk and interest rate risk it faces by entering into hedging transactions when necessary. The Bank uses a number of market risk mitigation tools in order to control market risk such as:

- Limits;
- Hedging instruments.

RCB operates a two-level limits system. At the higher level are the Framework Limits which are approved by the MB. All operating limits are approved by the CALCO. Making a decision about any market risk position, the Bank assesses the instruments' liquidity, volatility and tradability all of which are discussed at the CALCO level prior to arriving at a decision.

The following financial instruments may be used as hedging instruments when the need arises:

- Cross currency and interest rate swaps;
- Forward foreign exchange contracts;
- Other financial instruments.

The Bank does not hold open positions in any currencies with the view of profiting from exchange transactions. Any foreign currency positions are short-term and for operational purposes. The Treasury Department monitors and controls the Bank's open currency positions and hedges foreign exchange positions; as a result the Bank's total open currency position strives to be zero.

The Bank accepts a low level of interest rate risk as a result of the banking activities it undertakes and this assumption of risk is not for profit making purposes. The Bank seeks to avoid any material unexpected impact in its earnings and economic value caused by interest rate movements by mitigating interest rate risk to the extent possible. CALCO is authorized to decide on the hedging of interest rate risk in the Banking Book. As such, the effectiveness of hedges is assessed relative to the Bank's overall market and interest rate risk position.

Stress Testing

The Bank conducts its market risk stress testing programme for each of the aforementioned components by applying severe yet plausible scenarios which address the following aspects:

a. Exceptional changes in market prices;
b. Liquidity shortages;
c. Widening credit spreads;
d. Effects from correlations of the various risk factors under adverse market conditions.

The full details with regards to the aforementioned stress tests are described in the Bank's "Stress Testing Programme", together with the all the relevant parameters and underlying assumptions. The Risk Committee is responsible for reviewing and approving the Stress Testing Programme of the Bank, which is prepared by the Risk Management Department.

Reporting

The Bank has established a comprehensive reporting framework with respect to market and interest rate risk, which involves reporting on the following:

- Composition of the trading portfolio and analysis of concentration, correlation, liquidity of trading positions;
- Monitoring of limits set for the key risk metrics such as stop loss on trading book on portfolio and individual level, present value of an 01 (PV01), Value-at-Risk; market risk-weighted assets, market value/notional value of positions;
- Results of stress tests with regards to market and interest rate risk;
- Recommendations for the improvement of market risk related processes, strategies and policies.

4.2.3. Liquidity risk and funding risk

4.2.3.1. Liquidity and funding risk management

Liquidity risk is defined by the Bank as the risk that the Bank may be unable to meet expected and unexpected cash flow obligations when they come due, without incurring substantial losses.

Funding risk is defined by the Bank as the risk of not being able to raise further funding to allow it to continue funding its operations or meet its cash flow obligations.

In assessing the Bank's overall liquidity and funding risk, an assessment is performed to determine risk exposures across ten liquidity and funding risk drivers taking into consideration direct and second order effects. As part of the on-going liquidity risk management, this assessment is used to identify the quantitative limits the Bank is required to have in place as well as to calibrate RCB's tolerance for liquidity and funding risk and therefore set/revise where necessary these limits.

The Bank follows a prudent approach to liquidity risk and permanently works on strengthening its funding and liquidity positions to ensure that the Bank's core businesses are able to operate in support of client needs and meet contractual and contingent obligations through normal economic cycles as well as under stress.

The MB is responsible for approving the liquidity policy of the Bank and the budget of the next year while the CALCO formulates the policies for the management of liquidity risks and reviews the liquidity risk section included within the reports of the RMD. The RMD assesses the adequacy and effectiveness of the liquidity risk management strategies and procedures followed by the Bank, recommends changes where necessary and reports to the MB (through the RC) on the liquidity risk position of the Bank on a quarterly basis or more frequently if necessary.

The Bank complies with the supervisory risk limits that exist for mitigating liquidity risk. In addition, the Bank applies lower limits compared to the supervisory ones. An early warning indicators system is used for managing the liquidity risk and funding risk. The management of the Bank is informed of the liquidity position on a daily basis and appropriate decisions are taken in case any need arises.

The Bank's cash flow management is based on the expected date of maturity rather than on contractual dates. Expected cash outflows match in general the expected cash inflows from assets.

The liquidity and funding risk management framework is documented in the "Risk Strategy and Appetite Statement" and the "Liquidity and Funding Risk Management Policy" approved by the MB. The framework outlines the principles, the governance systems and the internal controls relating to RCB's liquidity risk management.

The Bank strives to match in general amount, composition and tenor assets to liabilities. The main strategic objective of liquidity risk management is to ensure that the Bank, at any time, is able to meet its payment obligations when they fall due while avoiding largely excessive allocation of funds into liquid but low-yielding assets.

4.2.3.2. Policies mitigating liquidity risk

The Bank employs several tools to measure and manage its Liquidity and Funding Risk. These tools include metrics that assess the structure of the balance sheet and also provide a forward looking aspect of the Bank's cash flows and future liquidity positions, while considering off-balance sheet exposures. The Treasury Department and the RMD generate reports which amongst other information also contain these metrics, which are used for monitoring and steering the Bank's liquidity position and strategy.

Subcategory of Risks	Controls in place/Mitigation
Funding Risk	- The Bank regularly analyses the breakdown of deposit categories. - The Bank constantly monitors customer deposit outflows. In addition it monitors: - Shifts of clients' deposits to longer maturities through interest rate pricing; - Competitors' actions; - Monitor market trends and offer new saving products; - Monitor the wholesale funding amount, which is not used for cash collateral funding. The Bank also sets quantitative limits, i.e. wholesale funding (other than for cash collateral) over the own risk corporates loan portfolio.
Liquidity Risk	- Monitoring of loans granted in excess of funding available in the currency of the loan and the ease of conversion of foreign currency to USD. - Monitoring of the liquid assets market. - Monitoring the unutilised credit limits and committed credit lines. - Monitoring the net daily outflows. - Monitoring press releases regarding RCB to maintain positive sentiment among the public.

To limit liquidity risk and funding risk, the Bank monitors liquidity on a daily basis by:

- Managing future cash flows to ensure that requirements are met;
- Maintaining a portfolio of highly marketable securities that can easily be liquidated against any unforeseen interruption to cash flow; and
- Managing balance sheet liquidity ratios against internal and regulatory requirements, through Risk Appetite and Recovery indicators.

Additionally the Bank monitors the liquidity through performance of stress tests on a monthly basis.

In order to correctly identify, monitor and manage liquidity risk, the Bank has in place regular reporting on monitoring of liquidity risk drivers, early warning indicators, cash flow projections, as well as monitoring of compliance with regulatory and internal limits and stress testing results.

The Bank produces the ILAAP report in accordance with the "Procedures for internal capital and liquidity adequacy assessment process". The Bank prepares a Liquidity Adequacy Statement which "translates" the view of the MB as regards liquidity risk management and liquidity adequacy; the liquidity adequacy statement is supported by an analysis of the ILAAP set-up and outcomes, describing also the overall liquidity risk profile associated with the business strategy of the Bank. The Liquidity Adequacy Statement also expresses the MB's assurance that the liquidity risk management systems in place are adequate given the Bank's liquidity and funding risk profile and strategy.

4.2.4. Operational risk

4.2.4.1. Operational risk management and Capital Management

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. This definition includes correspondent banking risk, conduct risk, information and communication technology risk, compliance risk, legal risk, strategic risk and reputational risk as well as model risk. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The operational risk management framework is documented in the "Risk Strategy and Appetite Statement" and the "Operational Risk Management Policy" approved by the MB.

The strategy of the Bank in respect of operational risk management is to minimize operational risk by establishing a strong system of internal controls within the Bank, as well as using other mitigation tools like insurances, where internal controls are not considered adequate.

The senior management is responsible for the development of policies and procedures for managing operational risk and the RMD assesses the adequacy of the procedures and makes recommendations where necessary for updating or amending existing policies and procedures.

In 2017, the Bank was managing operational risk through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank uses an operational risk management software to support the operational risk management framework of the Bank, allowing the Bank to collect loss events. An important component of the operational risk management framework is the risk control self-assessment exercise which establishes accountability and represents a bottom-up assessment which depicts a more detailed operational risk profile, integrating business area and process perspectives. A number of key risk indicators are monitored against the thresholds on a regular basis.

The RMD assesses the adequacy and effectiveness of the operational risk management strategies and procedures followed by the Bank, recommends changes where necessary and reports to the MB (through the RC) on the operational risk position of the Bank on a quarterly basis or more frequently if necessary.

The Bank on a regular basis reports to the RC results of operational risk events. More specifically reports to the RC the amount and number of Near Miss and Loss events, detailed description of Loss events and summary of Key Risk Indicators related to operational risk.

Capital Management of operational risk

The Bank calculates Pillar I capital requirements for operational risk, in accordance with the Standardised Approach as defined in Regulations (EU) N575/2013. The MB, the RC and/or Senior Executive Management assess if Pillar I capital is adequate and if it is necessary to maintain additional Pillar II capital for operational risk. The assessment is done on an annual basis during revision of the Internal Capital Adequacy Assessment (ICAAP) report.

4.2.4.2. Policies mitigating operational risk

The Bank uses the following mitigation tools in respect to operational risk:

- Business continuity and Disaster Recovery plans;
- Insurance;
- Outsourcing;
- New product approval;
- Risk and Controls self-assessment;
- Loss Data Collection;
- Key Risk Indicators;
- Stress Testing.

Reporting process of the Bank on operational risks includes regular reporting on key risk indicators, results of loss data collection (near miss and loss events), self-assessment of operational risks and controls in place, as well as results of operational risk stress-testing exercise.

The detailed description of the Operational Risk subcategories as well as the controls in place are the following:

Subcategory of Risks	Controls in place/Mitigation
Legal Risk	- All transaction documents are reviewed by the Legal Department; - All internal documents, such as procedures and directives, are reviewed by the Legal Department; - Legal Department and Compliance Department advise on changes to laws, regulations, directives, etc.; - A Health and Safety Committee is in place; - In accordance with the Procedure for the development of New Products, LD is involved acts a reviewer; - External counsels are also employed by the Bank where necessary.
Reputational Risk	The Bank takes all reasonable measures to maintain its reputation, including monitoring of press releases, corporate social responsibility actions, appropriate advertising, setting an appropriate culture for the monitoring of risks and compliance with applicable rules and regulations, providing training to its personnel on the Bank's business practices and code of conduct.
Information and communication technology (ICT) risk	A number of strict controls are in place in order to manage the IT risks of the Bank according to internal policies and procedures, namely system operation controls, password protections, encryption, physical security, IT policies and procedures etc.
Compliance Risk	- A Compliance Policy and Procedures Manual for the Management of Compliance Risk in place. The Compliance Department monitors on a weekly basis the new or amended laws/directives/regulations. - The CD has implemented a compliance risk register and monitories CKRIs for the identification of areas that might present risk for the Bank. - In accordance with the Procedure for the development of New Products, CD is involved acting as a reviewer.
Conduct Risk	The Bank reviews regularly any complaints that may be submitted against the Bank for misconduct and monitors the changing regulatory expectations to ensure that any possible causes of mis-conduct are averted. The Bank establishes internal controls, compliance policies and procedures, Business Continuity Policy and it enhances the awareness of staff on proper practices to be followed.
Model Risk	The Bank principally avoids the use of overly complex models that are not suited for its profile, nature, scale and complexity of its activities and business requirements.

4.3. Information on governance arrangements

The Bank implemented a formal, rigorous and transparent procedure for the appointment of members of the MB and encourages gender diversity.

The members of the MB have a broad knowledge and expertise in the areas of banking, financial services, law, accounting and international relations. Further, the MB and its Committees have the appropriate level of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. The assessment process and selection criteria are in line with the Bank's Policy for Assessment of the Fitness and Probity of Members of the Management Body and Managers as well as relevant Central Bank of Cyprus Directives and subsequent clarifications. In line with the requirements of the Directive regarding the fitness and probity of the members of the Management Body issued by the Central Bank of Cyprus and subsequent clarifications, RCB's members of the MB directorships do not exceed the maximum number allowed by the Central Bank of Cyprus. Subsequently the MB members reflect a diversity of skills, experience and perspectives, including gender and age diversity which is aligned with the internal procedures of the Bank.

Management Body

The Bank is governed by the Management Body. The Management Body (MB) consists of 10 members. The MB consists of 8 non-executive members, of whom 6 are independent; and 2 executive members. The MB is responsible for:

- Formulating the risk strategy, risk appetite and tolerance level of the Bank;
- Setting, periodically reviewing and overseeing the implementation of the Bank's business objectives and strategies for achieving those objectives, including its internal capital plans, taking into account the Bank's long-term financial interests and solvency as well as the interests of depositors, shareholders and other relevant stakeholders;
- Assessing, in conjunction with strategy formulation, on an ongoing basis and under alternative scenarios the amounts, types and distribution of internal capital;
- Providing overall capital management supervision and regularly monitoring the capital profile of the Bank;
- Approving capital plans and budgets commensurate to the type and size of its activities, risk appetite and estimated financial results;
- Approving and periodically reviewing the various policies prepared by the Bank;
- Approving limits and deciding on the consequences of framework limit excesses;
- Reviewing of the ICAAP document and exercising oversight over the process;
- Ensuring the financial stability of the Bank with regular assessment of the own funds and liquidity requirements, taking the necessary measures where necessary.

The directorships held by the members of the Management Body are in line with the Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions of 2014 and are outlined in the table below.

The Bank implements succession planning scheme in accordance with "Talent Management and Succession Planning Policy", where the Bank describes foreseeable changes within the overall composition of the MB, CEO, senior management and heads of Departments (including the Heads of internal control functions).

Furthermore, and pursuant to the Terms of Reference, the Nominations Committee of the Bank is responsible for deciding on a target for the representation of the underrepresented gender on the Board and for preparing a policy on how to increase the number of the underrepresented gender on the Board in order to meet that target. The target and policy are incorporated in the Bank's Diversity Policy. The current composition of the Board of the Bank is in line with such target.

Director	Executive	Non-Executive	Directorships in organisations which do not pursue predominantly commercial objectives	Executive or non-executive directorships held within the same group	Executive or non-executive directorships held with other legal entities
Martin Czurda	0	1	0	1	0
Petros Clerides	0	1	0	1	0
Erato Kozakou Marcoullis	0	1	5	1	0
Christoforos Antoniou Pissarides	0	2	0	1	1
Panayiotis Loizides	0	1	0	1	0
Dr Kirill Zimarin	1	0	1	5*	0
Vadim Levin	0	1	0	1	0
Sergey Kovtun	0	1	0	1	0
Sotirios Zackheos	1	1	1	5*	1
Andreas Tryfonides	0	1	0	1	0

***According to the Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions of 2014 executive or non-executive directorships held within the same group count as a single directorship.**

5. Own funds

5.1. Summary

The Bank's own funds are divided into two tiers:

- **Tier 1 capital** includes share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets and asset value adjustments regarding the trading book have been deducted in arriving at Tier 1 capital; and
- **Tier 2 capital** may include qualifying subordinated loan capital, collective impairment allowances and capital instruments, subordinated loans and share premium resulting from the issue of instruments included in tier 2 capital, provided that they meet specific regulatory requirements. Bank's Tier 2 capital includes the qualifying subordinated loan capital.

5.2. Original and additional own funds

The original and additional own funds of the Bank as at 31 December 2017 were as follows:

	EUR000
Common Equity Tier 1:	
Share capital	18.471
Share premium	120.600
Retained earnings and accumulated comprehensive income	304.808
Less: intangible assets	(1.307)
Asset value adjustments due to prudent valuation	(161)
Additional Tier 1 capital	**0**
Total Tier 1 capital	**442.411**
Tier 2 capital:	
Subordinated loan capital	23.804
Total Tier 2 capital	**23.804**
Total regulatory capital	**466.215**

The subordinated loan included within Tier 2 capital has an original maturity of seven years, is recognized initially at fair value, net of transaction costs incurred and is gradually amortized for regulatory purposes during the last five years before the repayment date, currently amounting to EUR23.8mln. The rights of the lender under the subordinated debt are at all times subordinated to the rights of all other creditors of the Bank.

As of 31 December 2017, the Tier 1 was in excess of the minimum regulatory requirements.

Disclosure of a full reconciliation between the regulatory capital items and the balance sheet in the audited financial statements can be found below:

Own Funds Reconciliation	Financial Statements EUR000	Pillar III Disclosures EUR000	Variance EUR000
Share Capital	18.471	18.471	-
Share Premium	120.600	120.600	-
Retained Earnings and other comprehensive income	323.807	304.808	(18,999)
Intangible Assets	(1.307)	(1.307)	-
Prudential Filters	-	(161)	(161)
Subordinated loan	83.808	23.804	(60.004)
Total Own Funds	545.379	466.215	(79.164)

Difference to the Retained earnings and other comprehensive income is due to the fact that financial retained earnings and regulatory approved retained earnings are subject to different time recognition. Variance arises to the subordinated loan which to financial statements is presented according to its accounting value and to Pillar III is presented amortised according to CRR Article 64. Also prudential filters related to additional value adjustments as regards to the assets measured at fair value, are not part of financial statements but it is considered as regulatory component.

The analytical Own Funds disclosure template can be found in Annex I and the main features of the Common Equity Tier 1 and Tier 2 instruments issued can be found in Annex II and Annex III.

The CRR sets out requirements relating to prudent valuation adjustments of fair-valued positions to determine prudent values that achieve an appropriate degree of certainty having regard to the dynamic nature of trading book positions. The Bank applies the "Simplified approach" in order to calculate the additional value adjustments ("AVA"). Under the simplified approach, the calculation of the required AVA is the 0.1% of the aggregate absolute value of fair-valued positions held by the institution.

6. Minimum Capital requirements for credit, market and operational risks

6.1. The Banks's approach for assessing the adequacy of its internal capital

The section below presents an overview of the minimum capital requirements as of 31 December 2017. The risks included are credit risk, market risk and operational risk.

The Bank is not exposed to any securitization positions, thus there are no corresponding minimum requirements for specific interest rate risk of securitization positions to be disclosed within this section.

Furthermore, any equities within the Banks portfolio are included in the trading book, thus any disclosures related to equities not included within the trading book are not relevant. As at 31 December 2017, the Bank did not hold any equities in the trading book.

For calculation of Pillar 1 risks, the internal capital method is the regulatory capital method in accordance to the CRR and CRD IV. Any risks not covered within this document are covered under the Internal Capital Adequacy Assessment Process document.

6.1.1. Overview of risk weighted assets

The below table provides and overview of total risk weighted assets in comparison with the previous year:

	RWA 2016 EUR000	RWA 2017 EUR000	Capital Requirements 2017 EUR000
Credit Risk	1.625.970	1.462.021	116.962
Market Risk	243.234	147.816	11.825
Operational Risk	499.288	542.750	43.420
Credit Valuation Adjustment	50.900	43.063	3.445
Total	**2.419.392**	**2.195.650**	**175.652**

The Bank uses the following approaches in assessing its capital adequacy:

6.1.2. Credit Risk - Standardized Approach

The Basel framework permits banks a choice between two broad methodologies in calculating their capital requirements for credit risk by asset class:

- The internal ratings-based (“IRB”) approach; or
- The standardised approach.

Off-balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors (“CCF”).

The Bank has elected to adopt the standardised approach for credit risk to calculate the minimum credit risk capital requirements under Pillar 1 of the CRD IV.

Under the standardised approach, risk weights are determined according to credit ratings provided by recognised External Credit Assessment Institutions (“ECAIs”) or, for unrated exposures, by using the applicable regulatory risk weights. It also recognises the application of certain credit risk mitigation techniques.

The Bank allocates each of its exposures (assets, exposure values of derivative contracts and off-balance sheet items) to the relevant exposure classes listed below:

- Exposures to Central Governments or Central Banks;
- Exposures to regional governments or local authorities;
- Exposures to public sector entities;
- Exposures to multilateral development banks;
- Exposures to international organizations;
- Exposures to institutions;
- Exposures corporates;
- Retail exposures;
- Exposures secured by mortgages on immovable property;
- Exposures in default;

- Exposures associated with particularly high risk;
- Exposures in the form of covered bonds;
- Items representing securitisation positions;
- Exposures to institutions and corporates with short-term credit assessment;
- Exposures in the form of units or shares in collective investment undertakings;
- Equity exposures; or
- Other items.

Analysis of exposures by risk weight as at 31 December 2017

Exposure Class	0%	20%	35%	50%	75%	100%	150%	Total	Of which unrated
Central Gov or Central Banks	2.002.505	-	-	-	-	327	-	2.002.832	2.002.832
Institutions	-	1.180	-	-	-	5.627	-	6.807	1.180
Claims with short-term credit assessment	-	41.051	-	20.515	-	12.942	13.300	87.808	0
Corporates	-	-	-	-	-	5.794.054	1.093.834	6.887.888	5.725.280
Retail items	-	-	-	-	1.200	-	-	1.200	1.200
Secured by mortgages on IMP	-	-	2.180	-	-	-	-	2.180	2.180
Exposures in Default	-	-	-	-	-	4.150	-	4.150	4.150
Items associated with high risk	-	-	-	-	-	-	145.077	145.077	145.077
Other items	4.250	-	-	-	-	42.310	-	46.560	46.560
Total	**2.006.755**	**42.231**	**2.180**	**20.515**	**1.200**	**5.859.410**	**1.252.211**	**9.184.502**	**7.928.459**

Where credit risk mitigation applies for a specific exposure, the fully adjusted value of the exposure which takes into account an adjusted value of the collateral is calculated in accordance with the CRR. Risk weight is assigned to each of the exposures in accordance with the regulatory requirements.

Once the risk weighted exposures are calculated for all the exposure classes, these are multiplied by 8% in order to result in capital requirements regarding credit risk according to Article 438 of CRR.

Analysis of the Pillar 1 minimum capital requirements and risk weighted exposures as at 31 December 2017

Exposure class	Risk Weighted Exposure EUR000	Capital Requirements EUR000
Central Governments or Central Banks	327	26
Institutions	5.863	469
Exposures to institutions and corporates with short-term credit assessment	51.360	4.109
Corporates	1.187.221	94.977
Retail items	900	72
Secured by mortgages on immovable property	763	61
In Default	2.232	179
Items associated with particular high risk	171.045	13.684
Other items	42.310	3.385
	1.462.021	**116.962**

Within the asset classes of Institutions and Corporates, capital requirements of EUR12.4 mln relate to counterparty credit risk and EUR16.9mln exposure to financial guarantees.

Analysis of counterparty credit risk exposures by approach as at 31 December 2017

Analysis of CCR exposure by approach	Notional EUR000	Replacement cost/current market value EUR000	Potential future credit exposure EUR000	EEPE EUR000	Multiplier EUR000	EAD post CRM EUR000	RWAs EUR000
Mark to market	-	29.904	13.236	-	-	43.14	40.602
Original exposure	-	-	-	-	-	-	-
Standardised approach	-	-	-	-	-	-	-
IMM (for derivatives and SFTs)	-	-	-	-	-	-	-
- Of which securities financing transactions	-	-	-	-	-	-	-
- Of which derivatives and long settlement transactions	-	-	-	-	-	-	-
- Of which from contractual cross-product netting	-	-	-	-	-	-	-
Financial collateral simple method (for SFTs)	-	-	-	-	-	114.796	114.796
Financial collateral comprehensive method (for SFTs)	-	-	-	-	-	-	-
VaR for SFTs	-	-	-	-	-	-	-
Total	**-**	**29.904**	**13.236**	**-**	**-**	**157.936**	**155.398**

Analysis of counterparty credit risk exposures by portfolio and risk weight as at 31 December 2017

	Risk weight												
Exposure classes	0% EUR000	2% EUR000	4% EUR000	10% EUR000	20% EUR000	50% EUR000	70% EUR000	75% EUR000	100% EUR000	150% EUR000	Others EUR000	Total EUR000	Of which unrated EUR000
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	802	-	-	-	5.627	-	-	6.429	802
Corporates	-	-	-	-	-	-	-	-	127.173	-	-	127.173	127.173
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	37	8.406	-	-	11.216	4.675	-	24.334	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**839**	**8.406**	**-**	**-**	**144.016**	**4.675**	**-**	**157.936**	**127.975**

6.1.3. Market Risk - Standardized approach

6.1.3.1. Position Risk-Traded debt securities

Position risk is split into general and specific risk.

- **General risk**
  General risk is calculated using the maturity-based approach. Under this approach, the traded debt securities are assigned a risk weight according to their maturity and coupon rate. The CRR splits the maturity bands into 3 zones. Thereafter, the exposure amount falling in a specific maturity band is multiplied by the risk weight applicable for that band in order to calculate the long or short position.

  After the calculation of all positions, the matched and unmatched weighted positions are assigned a risk capital charge (from 10% to 150%). The level of risk capital charge to be assigned to each of the matched positions depends on the maturity zone in which the position falls. All unmatched positions are assigned 100% risk capital charge.

  To calculate the capital requirements for the general risk, the matched and unmatched weighted positions are multiplied by the relevant risk capital charge.

- **Specific risk**
  Specific risk is calculated using a table which separates the issuers of the traded debt securities into 4 categories according to their credit quality steps. The credit quality steps are calculated based on the credit rating assigned by the external rating agency to the issuers of the securities. Each of the risk ratings relates to a specific credit quality step.

  A risk capital charge is assigned to the traded debt securities based on the category in which they fall.

  Finally, in order to calculate the capital requirements for the specific risk, the positions falling in each category are multiplied with the risk capital charge applicable for that category.

6.1.3.2. Position risk-Equities

Position risk is split into general and specific risk.

- **General risk**
  The capital requirements against general risk are the overall net position multiplied by 8%.

- **Specific risk**
  The capital requirements against specific risk are the overall gross position multiplied by 8%.

As at 31 December 2017, the Bank did not have any exposures to equities.

6.1.3.3. Position risk-Foreign exchange risk

Regarding foreign exchange risk, assets, liabilities, and off-balance sheet items (namely, irrevocable guarantees that are certain to be called) as well as forward positions under forward exchange contracts, are separated by original currency (except the USD which is the functional currency and hence does not affect the FX position). Then the long/short positions are calculated for each currency which are added together to end up into an aggregate long and short position. The higher of the total of the net long positions and the total of the net short positions is the Bank’s overall net foreign exchange position.

As per the CRR, if the overall net foreign exchange position is less than 2% of the Bank's own funds, no capital requirements exist, otherwise, capital requirements arise. There were no capital requirements for foreign exchange risk as at 31 December 2017, since the overall net foreign exchange position was less than 2% of the Bank's own funds.

6.1.3.4. Minimum capital requirements for market risk

	RWAs EUR000	Capital Requirements EUR000
- Interest rate risk (general and specific)	147.816	11.825
- Equity risk (general and specific)	-	-
- Foreign exchange risk	-	-
- Commodity risk	-	-
Options	-	-
- Simplified approach	-	-
- Delta-plus method	-	-
- Scenario approach	-	-
Securitisation	-	-
Total	**147.816**	**11.825**

6.1.4. Operational risk, Standardized approach

As at 31 December 2017, the capital requirements calculated in accordance with the principles of the standardised approach amounted to EUR43.4 mln.

6.1.5. Additional capital requirements relating to excesses on limits for large exposures

As at 31 December 2017 there were no additional own fund requirements relating to any excesses on limits for large exposures.

6.1.6. Capital Value Adjustment

As at 31 December the capital requirements for CVA was EUR3.4 mln.

CVA Capital charge	Exposure value	RWAs	Capital Requirements
Total portfolios subject to the advanced method	-	-	-
i. VaR component (including the 3× multiplier)	-	-	-
ii. SVaR component (including the 3× multiplier)	-	-	-
All portfolios subject to the standardised method	-	-	-
Based on the original exposure method	157.936	43.063	3.445
Total subject to the CVA capital charge	157.936	43.063	3.445

6.2. Capital Requirements Summary

The Bank's Tier 1 capital ratio as at the end of 2017 was 20.1% and the total capital adequacy ratio was 21.2%.

Summary of the minimum required capital requirements and risk weighted exposures for credit risk, market risk, operational risk and credit valuation adjustment

	RWA amounts 31 December 2017 EUR000	Minimum capital requirements 31 December 2017 EUR000
Credit risk (excluding CCR)	**1,306,623**	**104,530**
Of which the standardised approach	1,306,623	104,530
Of which the foundation IRB (FIRB) approach	0	0
Of which the advanced IRB (AIRB) approach	0	0
Of which equity IRB under the simple risk-weighted approach or the IMA	0	0
CCR	**198,461**	**15,877**
Of which mark to market	155,398	12,432
Of which original exposure	0	0
Of which the standardised approach	0	0
Of which internal model method (IMM)	0	0
Of which risk exposure amount for contributions to the default fund of a CCP	0	0
Of which CVA	43,063	3,445
Settlement risk	**0**	**0**
Securitisation exposures in the banking book (after the cap)	**0**	**0**
Of which IRB approach	0	0
Of which IRB supervisory formula approach (SFA)	0	0
Of which internal assessment approach (IAA)	0	0
Of which standardised approach	0	0
Market risk	**147,816**	**11,825**
Of which the standardised approach	147,816	11,825
Of which IMA	0	0
Large exposures	**0**	**0**
Operational risk	**542,750**	**43,420**
Of which basic indicator approach	0	0
Of which standardised approach	542,750	43,420
Of which advanced measurement approach	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	**0**	**0**
Floor adjustment	**0**	**0**
Total	**2,195,650**	**175,652**

6.3. Internal Capital Assessment

The Bank uses the Pillar 1 minimum capital requirement approach for the calculation of the regulatory capital requirements and additional methodologies applied for the quantification of the Pillar 2 capital add-on. The Bank implemented the minimum capital requirements approach in three stages:

01. The Pillar 1 minimum capital requirement is used as the foundation stone, which is evaluated to reflect the exposure to Pillar 1 risks (credit risk, operational risk and market risk);

02. The level of additional capital required is assessed, in order to adequately cover possible risks that RCB is exposed to from three groups:

    - Risks covered in Pillar 1 but not adequately based on internal assessment;
    - Risk not fully covered by Pillar 1 (e.g. Concentration Risk which is part of Credit Risk);
    - Risks not covered by Pillar 1 (e.g. Business risk and IRRBB).

03. A comprehensive risk assessment is carried out for all three groups of risks and the risks are assigned a profile (high/medium/low).

7. Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the cash flows of the transaction. In the context of these disclosures, the transaction concerns FX derivative products.

7.1. Internal capital and credit limits for counterparty credit exposures

The assignment of internal capital required for credit risk is made by considering the figure derived from the derivatives by applying the mark-to-market method. According to this method, the current replacement cost of all derivative contracts with positive values is obtained and an add-on is applied to account for the potential future credit exposure, being calculated using specific factors according to type of transaction and residual maturity.

For the purposes of counterparty credit risk the Bank considers that the Pillar 1 capital requirement under the Mark-to-Market method adequately captures the risk stemming from its derivatives portfolio. As such and, additionally, due to the immateriality of the exposures that fall under Counterparty Credit Risk for the the Bank, no additional capital is calculated for this risk.

7.2. Policies with respect to wrong-way risk exposures

A wrong-way risk exposure arises when an exposure to a counterparty is adversely correlated with the probability of default ("PD") of that counterparty. Wrong-way risk is not anticipated to be material. As a result of this, the Bank does not currently measure the above mentioned risk.

7.3. Gross positive fair value of contracts

As of 31 December 2017, the gross positive fair value of derivative contracts was EUR13.3mln.

7.4. Exposure value under mark-to-market method

The exposure value of derivatives is calculated as the sum of the positive mark to market values of the derivatives and the potential future exposure of the derivative calculated as per Article 274 of CRR.

As at 31 December 2017, the Bank's total derivative exposure value was EUR43.1mln, resulting in capital requirements of EUR3.2 mln.

8. The Bank's exposure to Credit Risk

8.1. Definitions

A financial asset is considered to be past due when the obligor has failed in discharging a material credit obligation to the institution on the contractually due date.

The Bank defines **defaulted exposures** as exposures that satisfy either or both of the following criteria:

- Material exposures which are more than 90 days past-due;
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due. A financial asset is considered to be past due when the obligor has failed in discharging a material credit obligation to the institution on the contractually due date.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Forborne exposures are debt contracts in respect of which forbearance measured have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

The definitions of non-performing exposures and forborne exposures are in accordance with the provisions of Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

There are no differences between the definitions of past-due and default for accounting and regulatory purposes.

The assessment of a loan for impairment is performed, as a minimum, during the monitoring process in accordance with the "Credit Monitoring" Procedure of the Bank through a two-step approach. As a first step, the Bank performs on-going monitoring of Credit facilities as well as a complete impairment assessment of the Bank's loan portfolio on at least yearly basis. The aim of this review is to determine whether there is objective evidence that impairment exists for the Credit facility. Secondly, if there is objective evidence of impairment (as a result of step one), the Bank should measure and record the impairment loss in the reporting period.

Impairment Triggers

Impairment losses are incurred where there is objective evidence of impairment that results from one or more events that occurred after the initial recognition of the value of the asset. Such events (hereinafter referred to as "trigger events") must have an impact on the estimated future cash flows of the Credit facilities that can be reliably measured. The amount of impairment shall be measured as the difference between the carrying amount of the Credit facility and the present value of the estimated future cash flows, discounted at the Credit facility's original effective interest rate.

The following **trigger events** may be considered as evidence of impairment and are assessed taking also into account the Risk Factors (Early Warning Indicators). It is noted that in case of a trigger event, the economic impact is evaluated and impairments are recorded in the Bank's accounts where there is evidence of economic impact:

- Evident deterioration in the Borrower's debt servicing capacity;
- Credit facilities with internal credit rating representing high credit risk (with grade 7 and above);
- Significant financial difficulty of the Borrower;
- Breach of contract, such as default in interest or principal payments;
- The Bank, for economic or legal reasons relating to the Borrower's financial difficulty, granting to the Borrower a concession that the Bank would not otherwise consider;
- It becomes probable that the Borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of Borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount, which are monitored through the Artemis Bank Information Systems), or
  - national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the Borrowers, a decrease in real property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the Borrowers in the group).

Other factors which may be considered, identified and reliably measured relate to the Borrower's liquidity, solvency, economic trends and conditions, fair value of Collateral and guarantees.

In addition to the trigger events referred to above, it may also be considered, on a case by case basis, whether macroeconomic triggers exist, which may affect the future estimated cash flows of the Borrowers.

These **macroeconomic triggers** include:

- Current economic conditions which may adversely affect the estimated future cash flows of the Borrower with consequent adverse impact on the Borrower's repayment ability;
- Increase in the unemployment rate;
- Decrease in real property prices that may adversely affect the repayment ability of certain Borrowers operating in particular sectors, such as developers, and the Collateral value of mortgaged properties of all classes of Borrowers;
- Other adverse changes in the conditions of the economy in general.

A single event may not constitute, on its own, evidence of impairment, for example, a downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. On the other hand, the absence of a trigger event does not preclude the occurrence of an impairment loss. Expert judgment is to be applied by the Business and Risk Management Departments before deciding on categorizing a Credit facility as impaired.

8.2. Approaches and methods adopted for determining value adjustments and provisions

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment to the extent applicable to the Bank given the nature of its operations, the small number of loans and availability of the necessary data. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics to the extent applicable to the Bank given the nature of its operations, the small number of loans and history of loan losses. The characteristics chosen are relevant to the estimation of future cash flow for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

8.3. Total amount of exposures without taking into account credit risk mitigation, pre credit conversion factors

Exposure Type	Central Governments or Central Banks EUR000	Institutions EUR000	Claims on inst and corp with a short-term credit assessment EUR000	Corporates EUR000	Retail EUR000	Secured by immovable property EUR000	In Default EUR000	High Risk Items EUR000	Other items EUR000	Total EUR000
Cash and balances with central banks	2.002.505	-	-	-	-	-	-	-	-	2.002.505
Loans and advances to banks	-	378	61.480	-	-	-	-	-	-	61.858
Loans and advances to customers	-	-		6.745.949	1.001	2.180	4.150	145.077	-	6.898.357
- Of which SME	-	-	-	347.840	-	-				347.840
Securities Financing Transactions	-	-	-	114.796	-	-	-	-	-	114.796
Derivative financial instruments	-	6.429	24.333	12.378	-	-	-	-	-	43.140
Other credit related liabilities	327	-	1.995	14.765	199	-	-	-	46.560	63.846
Total	**2.002.832**	**6.807**	**87.808**	**6.887.888**	**1.200**	**2.180**	**4.150**	**145.077**	**46.560**	**9.184.502**

8.4. Average amount of exposures for 2017 without taking into account credit risk mitigation, pre credit conversion factors

Exposure Type	Net value of exposures at the end of the period EUR000	Average net exposures over the period EUR000
Central governments or central banks	2.002.832	1.485.105
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral development banks	-	-
International organisations	-	-
Institutions	6.807	6.184
Corporates	6.887.888	7.415.820
Retail	1.200	1.155
Secured by mortgages on immovable property	2.180	24.085
Exposures in default	4.150	54.537
Items associated with particularly high risk	145.077	130.762
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	87.808	132.041
Collective investments undertakings	-	-
Equity exposures	-	-
Other exposures	46.560	44.332
Total standardised approach	-	-
Total	**9.184.502**	**9.294.021**

8.5. Geographic distribution of exposures, pre credit conversion factors

Credit risk exposures by geographical area as at 31 December 2017

Geographical area	Central Governments or Central Banks EUR000	Institutions EUR000	Claims on institutions and corporates with a short-term credit assessment EUR000	Corporates EUR000	Retail EUR000	Secured by immovable property EUR000	In Default EUR000	High Risk Items EUR000	Other items EUR000	Total EUR000
Cyprus	1.961.165	-	-	3.082.232	1.030	1.640	1.541	98.039	33.847	5.179.494
Europe	41.667	6.807	37.625	1.294.868	32	-	-	34.067	3.240	1.418.306
Russia	-		26.242	2.244.707	118	540	2.609	4.917	8.788	2.287.921
America	-		23.941	-	-	-	-	-	-	23.941
Other countries	-		-	266.081	20	-	-	8.054	685	274.840
Total	**2.002.832**	**6.807**	**87.808**	**6.887.888**	**1.200**	**2.180**	**4.150**	**145.077**	**46.560**	**9.184.502**

8.6. Distribution of exposures by industry, pre conversion factors

Industry	Central Governments or Central Banks EUR000	Institutions EUR000	Claims on institutions and corporates with a short-term credit assessment EUR000	Corporates EUR000	Retail EUR000	Secured by immovable property EUR000	In Default EUR000	High Risk Items EUR000	Other items EUR000	Total EUR000
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	28.840	-	-	-	2.273	-	31.113
- Of which SME				11.348						11.348
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	-	-
Water supply; sewerage, waste management and remediation activities	-	-	-	1.501	-	-	-	-	-	1.501
- Of which SME	-	-	-	1.501	-	-	-	-	-	1.501
Construction	-	-	-	347.807	-	-	-	89.518	-	437.325
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	45.766	-	-	-	-	-	45.766
- Of which SME	-	-	-	12.438	-	-	-	-	-	12.438

Continued on next page.

Industry	Central Governments or Central Banks EUR000	Institutions EUR000	Claims on institutions and corporates with a short-term credit assessment EUR000	Corporates EUR000	Retail EUR000	Secured by immovable property EUR000	In Default EUR000	High Risk Items EUR000	Other items EUR000	Total EUR000
Transportation and storage	-	-	-	5	-	-	-	-	-	5
Accommodation and food service activities	-	-	-	115.097	-	-	-	-	-	115.097
- Of which SME	-	-	-	55.914	-	-	-	-	-	55.914
Information and communication	-	-	-	24.590	-	-	-	-	-	24.590
- Of which SME	-	-	-	128	-	-	-	-	-	128
Financial and insurance activities	2.002.832	6.807	87.808	6.153.741	-	-	-	47.039	35.237	8.333.464
- Of which SME	-	-	-	199.184	-	-	-	-	-	199.184
Real estate activities	-	-	-	82.337	-	-	-	4.917	5	87.249
- Of which SME	-	-	-	52.707	-	-	-	-	-	52.707
Professional, scientific and technical activities	-	-	-	13	-	-	-	-	-	13
Administrative and support service activities	-	-	-	1.304	-	-	-	-	11.214	12.518
- Of which SME	-	-	-	1.301	-	-	-	-	-	1.301
Public administration and defence; compulsory social security	-	-	-	-	-	-	-	-	-	-
Education	-	-	-	13.122	-	-	-	-	-	13.122
- Of which SME	-	-	-	13.122	-	-	-	-	-	13.122
Human health and social work activities	-	-	-	197	-	-	-	-	-	197
- Of which SME	-	-	-	197	-	-	-	-	-	197
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-
Other service activities	-	-	-	23.044	-	-	-	-	-	23.044
Private Individuals	-	-	-	50.524	1.200	2.180	4.150	1.330	114	59.498
Total	**2.002.832**	**6.807**	**87.808**	**6.887.888**	**1.200**	**2.180**	**4.150**	**145.077**	**46.560**	**9.184.502**

8.7. Residual maturity breakdown of all the exposures, pre conversion factors

Credit risk exposures by residual maturity as at 31 December 2017

Residual maturity	Central Gov or Central Banks EUR000	Institutions EUR000	Claims on institutions and corporates with a short-term credit assessment EUR000	Corporates EUR000	Retail EUR000	Secured by immovable property EUR000	In Default EUR000	High Risk Items EUR000	Other items EUR000	Total EUR000
On demand and less or equal 1 month	2.002.832	378	87.808	193.262	443	20	-	36.820	44.560	2.366.123
More than 1 month and less or equal 2 months	-	-	-	305.122	24	12	-	-	-	305.158
More than 2 months and less or equal 3 months	-	-	-	178.767	24	14	-	7	-	178.812
More than 3 months and less or equal 6 months	-	4.145	-	92.036	70	38	-	132	-	96.421
More than 6 months and less or equal 1 year	-	2.284	-	159.891	88	87	-	1.595	-	163.945
More than 1 year	-	-	-	5.958.810	551	2.009	-	96.196	2.000	6.059.566
Overdue	-	-	-	-	-	-	4.150	10.327	-	14.477
Maturity undefined	-	-	-	-	-	-	-	-	-	-
Total	**2.002.832**	**6.807**	**87.808**	**6.887.888**	**1.200**	**2.180**	**4.150**	**145.077**	**46.560**	**9.184.502**

8.8. Impaired exposures and past due exposures by counterparty, pre conversion factors

	Gross carrying values of						
Exposure Type	Non-Defaulted exposures EUR000	Defaulted exposures EUR000	Specific credit risk adjustment EUR000	General credit risk adjustment EUR000	Accumulated write-offs EUR000	Credit risk adjustment charges of the period* EUR000	Net values EUR000
Central governments or central banks	2.002.832	-	-	-	-	-	2.002.832
Regional governments or local authorities	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	6.807	-	-	-	-	-	6.807
Corporates	6.887.888	4.150	1.918	12.709	-	39.303	6.877.411
- Of which: SMEs	347.840	-	-	-	-	-	347.840
Retail	1.200	-	-	-	-	-	1.200

Exposure Type	Gross carrying values of: Non-Defaulted exposures EUR000	Defaulted exposures EUR000	Specific credit risk adjustment EUR000	General credit risk adjustment EUR000	Accumulated write-offs EUR000	Credit risk adjustment charges of the period* EUR000	Net values EUR000
- Of which: SMEs	-	-	-	-	-	-	-
Secured by mortgages on immovable property	2.180	-	-	-	-	-	2.180
- Of which: SMEs	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-
Items associated with particularly high risk	134.750	10.327	10.327	274	-	-	134.476
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	87.808	-	-	-	-	-	87.808
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	46.560	-	-	-	-	-	46.560
Total standardised approach	**9.170.025**	**14.477**	**12.245**	**12.983**	**-**	**39.303**	**9.159.274**
Total	**9.170.025**	**14.477**	**12.245**	**12.983**	**-**	**39.303**	**9.159.274**
- Of which: Loans	6.764.410	14.477	12.245	12.983	-	-	6.753.659
- Of which: Debt securities	-	-	-	-	-	-	-
- Of which: Off-balance sheet exposures	134.429	-	-	-	-	-	134.429

*Memorandum item: It does not affect the net value figure

8.8.1. Impaired exposures and past due exposures by geographical area, pre conversion factors

Geographical area	Gross carrying values of: Non-defaulted exposures EUR000	Defaulted Exposures EUR000	Specific Credit risk adjustments EUR000	General Credit risk adjustments EUR000	Accumulated write-offs EUR000	Credit risk adjustment charges of the period* EUR000	Net values EUR000
Cyprus	5.177.953	1.541	1.253	9.653	-		5.168.588
Europe	1.416.033	2.273	2.273	1.089	-	39.303	1.414.944
Russia	2.285.312	2.609	665	191	-		2.287.065
America	23.941	-	-	-	-		23.941
Other countries	266.786	8.054	8.054	2.050	-		264.736
Total	**9.170.025**	**14.477**	**12.245**	**12.983**	**-**	**39.303**	**9.159.274**

*Memorandum item: It does not affect the net value figure

8.8.2.Impaired exposures and past due exposures by industry, pre conversion factors

	Gross carrying values of						
Industry	Non-defaulted exposures EUR000	Defaulted Exposures EUR000	Specific Credit risk adjustments EUR000	General Credit risk adjustments EUR000	Accumulated write-offs EUR000	Credit risk adjustment charges of the period* EUR000	Net values EUR000
Agriculture, forestry and fishing	0	-	-	-	-		0
Mining and Quarrying	0	-	-	-	-		0
Manufacturing	28.840	2.273	2.273	80	-	39.303	28.760
Electricity, gas, steam and air conditioning supply	0	-	-	-	-		0
Water supply; sewerage, waste management and remediation activities	1.501	-	-	0	-		1.501
Construction	437.325	-	-	5.065	-		432.260
Wholesale and retail trade; repair of motor vehicles and motorcycles	45.766	-	-	56	-		45.710
Transportation and storage	5	-	-	-	-		5
Accommodation and food service activities	115.097	-	-	348	-		114.749
Information and communication	24.590	-	-	109	-		24.481
Financial and insurance activities	8.326.746	6.723	6.723	5.653	-		8.321.093
Real estate activities	87.249	-	-	1.358	-		85.891
Professional, scientific and technical activities	13	-	-	-	-		13
Administrative and support service activities	12.518	-	-	1	-		12.517
Public administration and defence; compulsory social security	0	-	-	-	-		0
Education	13.122	-	-	22	-		13.100
Human health and social work activities	197	-	-	-	-		197
Arts, entertainment and recreation	0	-	-	-	-		0
Other service activities	23.044	-	-	291	-		22.753
Private Individuals	54.012	5.481	3.249	-	-		56.244
Total	**9.170.025**	**14.477**	**12.245**	**12.983**	**-**	**39.303**	**9.159.274**

***Memorandum item: It does not affect the net value figure**

8.8.3.Ageing Analysis of impaired and past-due exposures

	≤30 days EUR000	>30 days ≤60 days EUR000	>60 days ≤90 days EUR000	>90 days ≤180 days EUR000	>180 days ≤1 year EUR000	>1 year EUR000
Loans	-	-	-	2.610	3.603	8.264
Debt securities	-	-	-	-	-	-
Total exposures	**-**	**-**	**-**	**2.610**	**3.603**	**8.264**

8.8.4. Overview of the performing, non-performing and forborne exposures

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				Of which non-performing				On performing exposures		On non-performing exposures			
	EUR000	Of which performing but past due >30 days and <=90 days EUR000	Of which performing forborne EUR000	EUR000	Of which defaulted EUR000	Of which impaired EUR000	Of which forborne EUR000	EUR000	Of which forborne EUR000	EUR000	Of which forborne EUR000	On non-performing exposures EUR000	Of which forborne exposures EUR000
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	6.825.448	-	28.873	14.477	14.477	-	-	12.983	401	12.245	6.962	-	-
Off-balance sheet exposures	134.429	-	-	-	-	-	-	-	-	-	-	-	-

8.9. Changes in value adjustments and provisions

	Accumulated specific credit risk adjustment EUR000	Accumulated general credit risk adjustment EUR000
Opening balance	**44.757**	**9.658**
Increases due to amounts set aside for estimated loan losses during the period	35.535	3.767
Decreases due to amounts reversed for estimated loan losses during the period	-	-
Decreases due to amounts taken against accumulated credit risk adjustments	-	-
Transfers between credit risk adjustments	-	-
Impact of exchange rate differences	(2.529)	(442)
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments (sold during the year)	(65.518)	-
Closing balance	**12.245**	**12.983**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	35.535	3.767

	Gross carrying value defaulted exposures EUR000
Opening balance	**60.240**
Loans and debt securities that have defaulted or impaired since the last reporting period	92.914
Returned to non-defaulted status	-
Amounts written off	-
Facilities classified as NPL which were sold	(137.795)
Other changes	(882)
Closing balance	**14.477**

9. Credit Risk Identification and Measurement

9.1. Names of the nominated ECAIs and exposure classes for which ECAIs are used

For all regulatory credit exposures, the Bank uses external credit assessments for the determination of risk weights which is performed in accordance with the requirements laid down in CRR.

The Bank uses external ratings established by Fitch, Standard & Poor's and Moody's. Where a credit rating is not available, a default treatment is applied as specified by regulatory guidance.

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

9.2. Process used to transfer credit assessments onto items not included in the trading book

The Bank first classifies its exposures into the exposure classes. In accordance with the provisions of the CRR, a credit quality step is then allocated to the exposures based on the applicable credit rating in accordance with the regulatory provisions, which is then used to derive at a risk weight in accordance with specific tables included in the CRR.

For exposure classes of which the ECAI has been nominated, the assignment of risk weights depends on the rating of a financial instrument. If the financial instrument is not rated, the long-term credit rating of the customer or of a comparable financial instrument issued by the respective customer is used to assign the appropriate risk weight. If none of these ratings is available, the sovereign rating of the country in which the customer is domiciled is taken into consideration in the assignment of risk weights.

9.3. Association of the external rating of each ECAI with the credit quality steps

The Bank complies with the standard association of the external rating of each nominated ECAI with the credit quality steps prescribed in Article 136 of CRR.

9.4. Exposure values before and after credit risk mitigation

9.4.1. Exposures to Central Governments or Central Banks

The exposures in this asset class relate to exposures of the Bank to the Central Bank of Cyprus amounting to EUR1,960 mln, to the Central Bank of Luxembourg EUR41.7 mln and deferred taxation exposures to the Cyprus Government amounting to EUR327 thousand. No credit risk mitigation exists for exposures falling under this category. The risk weight assigned for the exposures to the Central Bank of Cyprus and the Central Bank of Luxembourg are 0% in accordance with the CRR as they are exposures to a Central Bank of a Member state denominated and funded in the domestic currency of that Central Bank. The remaining exposure, which is a Deferred Tax Asset that does not rely on future profitability, is assigned a risk weight of 100%.

9.4.2. Exposures to Institutions

Exposure to institutions classified and treated in accordance with Articles 119-121 of CRR. The risk weight of the exposure is based on the maturity of the exposure and the credit rating of the institution. Exposures to institutions are risk weighted in accordance with the credit quality step that corresponds on the credit assessment of a nominated ECAI. A preferential treatment is applicable for exposures to institutions of up to three months residual maturity. Exposures to institutions for which a credit assessment by a nominated ECAI is not available, shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated. For exposures to unrated institutions with an original effective maturity of three months or less, the risk weight shall be 20%.

The following table shows the exposures to institutions before and after credit risk mitigation, pre conversion factors.

Institutions

		Exposure values	
Credit quality step	Rating mapping	Before CRM EUR000	After CRM EUR000
1	AAA to AA-	100	100
2	A+ to A-	1	1
3	BBB+ to BBB-	53.892	53.892
4	BB+ to BB-	39.442	39.442
5	B+ to B-	-	-
6	CCC+ and below	-	-
N/a	Unrated	1.180	1.180
		94.615	**94.615**

*Ratings are based on the rating Agency Fitch

9.4.3. Exposures to Corporates

The following table shows the exposures to corporates before and after credit risk mitigation, pre conversion factors.

Corporates			
		Exposure values	
Credit quality step	Rating mapping	Before CRM EUR000	After CRM EUR000
1	AAA to AA-	-	-
2	A+ to A-	-	-
3	BBB+ to BBB-	-	-
4	BB+ to BB-	68.774	68.774
5	B+ to B-	1.093.834	-
6	CCC+ and below	-	-
N/a	Unrated	5.725.280	1.165.958
		6.887.888	**1.234.732**

***Ratings are based on the rating Agency Fitch**

All exposures to unrated corporates in this class are assigned a risk weight of 100% or the risk weight of its central government, whichever is the higher.

9.4.4. Credit Risk Mitigation techniques

The following table shows the loan portfolio exposures as regards to the extent of application of CRM.

	Exposures unsecured- Carrying amount EUR000	Exposures secured- Carrying amount EUR000	Exposures secured by collateral EUR000	Exposures secured by financial guarantees EUR000	Exposures secured by credit derivatives EUR000
Total loans	1.260.975	5.653.155	-	-	-
Total debt securities	-	-	-	-	-
Total exposures	**1.260.975**	**5.653.155**	**-**	**-**	**-**
Of which defaulted	14.477	-	-	-	-

9.5. Exposure values before and after credit conversion factors

In accordance with CRR, the exposure value of an off-balance sheet item is a percentage of its value. The percentages, also known as credit conversion factors, depend on the risk category in which the off-balance sheet item is classified (full risk-100%, medium risk-50%, medium/low risk-20% and low risk-0%). The table in annex VII shows the exposure values of off-balance sheet items by exposure class.

10. Operational risk

10.1. Approaches for the assessment of own funds requirements

The Bank uses the Standardised Approach for the assessment of own fund requirements for operational risk. Under the Standardised approach, the Bank divides their activities into the business lines according to the principles set out in CRR and calculates the own funds requirements for operational risk as the average over three years of the sum of the annual own funds requirements across all business lines.

11. Leverage

The CRR requires the disclosure of the Bank's leverage ratio. The leverage ratio is calculated as the Bank's capital measure (the Tier 1 capital) divided by that Bank's total exposure measure and is expressed as a percentage. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted when determining the capital measure.

The RMD is responsible for the identification, management and monitoring of the risk of excessive leverage. The Leverage ratio is one of the risk appetite and recovery indicators. The risk of excessive leverage is manage by calculating and monitoring the leverage ratio on a daily basis in order to ensure that is within the "Risk Strategy and Appetite Statement Policy" of the Bank, measure the distance of the Bank's ratio from the regulatory minimum limit and periodically it is benchmarked with peer banks. The Bank maintains a proactive approach on managing leverage ratio in order to always stay in line with Risk Appetite. In cases where the leverage ratio falls outside the prescribed limits CALCO reviews the available options, including decrease in the risk weighted exposures, to reduce leverage within the acceptable levels.

The Bank determines the exposure value of assets in accordance with the following principles:

- The exposure values of assets excluding derivatives, means accounting value remaining after specific credit risk adjustments, additional value adjustments and other own funds reductions related to the asset item have been applied;
- Physical or financial collateral, guarantees or credit risk mitigation purchased shall not be used to reduce exposure values of assets;
- Loans shall not be netted with deposits.

The leverage ratio formula is:

$$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital}}{\text{Total Leverage Exposure}}$$

The main factors driving the ratio are the Tier 1 capital amounting to EUR442.4 mln the loans portfolio to customers which amounts to EUR6.9 billion and represents the 74% of the leverage exposure. Given that the Tier 1 capital of the Bank is stable, the leverage is determined with the fluctuation of the loan portfolio.

As at the 31 December 2017 the Bank's leverage ratio was 4.8%. You can find more detailed analysis regarding the ratio in the appendix Annex IV.

12. Asset Encumbrance

As at 31 December 2017 the Bank had zero encumbered assets.

13. Capital Buffers

Counter-cyclical capital buffer

Institutions are required to disclose the key elements if the calculation of their countercyclical buffer rate, comprising the geographical distribution of their relevant credit exposures and the final amount of their institution-specific countercyclical buffer rate.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements					
Breakdown by country	Exposure value for SA EUR000	Sum of long and short positions EUR000	Exposure value SA EUR000	Of which: General Credit exposures EUR000	Of which: Trading book exposures EUR000	Of which: Securitisation exposures EUR000	Total EUR000	Own funds requirement weights EUR000	Countercyclical Capital Buffer rate EUR000
Cyprus	3.218.323	48.312	-	70.382	-	-	70.382	0.57	0%
Russian Federation	2.287.927	23.479	-	5.307	1.878	-	7.185	0.06	0%
Netherlands	1.093.834	8.990	-	-	719	-	719	0.01	0%
Virgin Islands, British	241.035	-	-	18.260	-	-	18.260	0.15	0%
Italy	66.753	-	-	5.340	-	-	5.340	0.04	0%
Guernsey	43.838	-	-	3.507	-	-	3.507	0.02	0%
Ireland	39.085	-	-	3.127	-	-	3.127	0.02	0%
Jersey	31.793	-	-	3.729	-	-	3.729	0.03	0%
Greece	27.487	-	-	989	-	-	989	0.01	0%
United States	23.941	1.865	-	383	-	-	383	0.00	0%
Qatar	19.806	-	-	1.584	-	-	1.584	0.01	0%
France	13.242	16.444	-	1.056	1.315	-	2.371	0.02	0%
Marshall Islands	12.578	-	-	1.006	-	-	1.006	0.01	0%
Luxembourg	17.663	-	-	729	-	-	729	0.01	0%
United Kingdom	22.607	17.244	-	817	1.380	-	2.197	0.02	0%
Switzerland	4.715	-	-	76	-	-	76	0.00	0%
Germany	3.555	23.776	-	142	1.063	-	1.205	0.01	0%
Croatia	2.273	-	-	-	-	-	-	0.00	0%
Austria	1.425	-	-	23	-	-	23	0.00	0%
Malta	1.444	-	-	-	-	-	-	0.00	0%
United Arab Emirates	1.354	-	-	2	-	-	2	0.00	0%
Belgium	115	-	-	3	-	-	3	0.00	0%
Cayman Islands	27	-	-	2	-	-	2	0.00	0%
Ukraine	14	-	-	1	-	-	1	0.00	0%
Belize	8	-	-	1	-	-	1	0.00	0%
Israel	8	-	-	-	-	-	-	0.00	0%
Seychelles	3	-	-	-	-	-	-	0.00	0%
Slovakia	-	1.799	-	-	144	-	144	0.00	0.5%
Spain	-	14.808	-	-	769	-	769	0.01	0%
Sweden	-	4.459	-	-	357	-	357	0.00	2%
Other	10	-	-	1	-	-	1	0.00	0%
	7.174.863	**161.176**	**-**	**116.467**	**7.625**	**-**	**124.092**	**1.00**	

Amount of institution-specific countercyclical buffer

	EUR000
Total risk exposure amount	2.195.650
Institution specific countercyclical buffer rate	0.01%
Institution specific countercyclical buffer requirement	139

14. Liquidity

Liquidity coverage ratio as at 31 December 2017 was 183% with liquidity buffer EUR2,025 mln and total net cash outflows amounting to EUR1,107 mln.

15. Exposure to interest rate risk on positions not included in the trading book

15.1. Nature of interest rate risk, key assumptions and frequency of measurement

Interest rate risk in the banking book (repricing risk) is the risk that arises from timing differences in the maturity (for fixed-rate instruments) and repricing (for floating-rate instruments) of Bank's assets, liabilities and off-balance sheet positions. In the scenario of an interest bearing asset of fixed interest, funded by a variable rate liability, the margin between the two would be affected by a move in market interest rates.

The Bank has established interest rate risk limits in relation to its banking book. The limits reflect the risk appetite of the Bank regarding loan transactions in terms of acceptable interest rate margins for specified maturities.

The Bank currently measures the effect of a change of 200 b.p. in interest rates on the Bank's earnings and economic value in accordance with the supervisory stress test scenario. The maximum limit for the change in the economic value of the Bask as a result of the change in the interest rates is set to be equal to the supervisory limit of 20% of the Bank's regulatory capital. As of 31 December 2017, this limit was not exceeded by the Bank.

In addition, the Bank performs on a quarterly basis non-supervisory stress testing by applying exceptional but plausible changes in interest rates (during this test, different parallel shifts of the yield curve and the yield curve twists are considered).

Interest rate risk in the banking book forms part of Pillar II, for the purposes of calculating Bank capital requirements.

The basic rules that are followed are in accordance with the guidelines provided by the Central Bank of Cyprus and are as follows:

All interest bearing assets and interest bearing liabilities of a non-trading nature are classified into specified time bands per currency. The classification into the time bands is based on the remaining maturity until the next re-pricing date. Then, the difference between assets and liabilities in each time band is calculated for each currency ending up in a gap. All time bands together, comprise the basis for the calculation of interest rate risk in the banking book, calculated under both the earnings and the economic value approach.

The stress test is based on the assumption that accrued interest and adjustments for the effective interest rate method are non-interest bearing and therefore excluded from the analysis. In addition, deposits are allocated to the maturity bands in such a way so as to match them with the corresponding loans for which they serve as collateral.

15.2. Variation in earnings and economic value

	Increase/(Decrease) in earnings			
	Currencies			
Stress scenario	USD EUR000	RUR EUR000	EUR EUR000	OTHER EUR000
+ 200 b.p.	6.747	(1.487)	6.819	(1.071)
- 200 b.p.	(6.747)	1.487	(6.819)	1.071

15.2.1. Variation in earnings

It should be noted that the variation in earnings is affected by the fact that non-interest bearing assets which are not included in the analysis are funded by interest bearing liabilities resulting in an increase in the gap on which the change in the interest rates is applied.

15.2.2.Variation in economic value

The change in economic value of the Bank as at the end of 31 December 2017 by applying a 200b.p. change in interest rates, was a decrease of EUR5 mln (1.1% of the Banks's own funds).

16. Remuneration Policy and practices

a. Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;

Remuneration Policy
The Bank takes an enterprise-wide approach to remuneration policies and practices and it is responsible for the design and maintenance of the Remuneration Policy.

The Management Body approves the Remuneration Policy and maintains oversight of its application. Implementation of the Remuneration Policy is also subject to central and independent review by the Head of Internal Audit.

Responsibility for oversight of the implementation and supervision of the Bank's remuneration strategy rests with the Management Body through the Remuneration Committee. Thus the Management Body is ultimately responsible for the Bank's compliance with applicable laws, rules, regulations and regulatory guidance. Furthermore, the Management Body is responsible for ensuring that the shareholders of the Bank have adequate information about the Remuneration Policy including the main components of remuneration and the main characteristics and objectives of the Bank's remuneration package.

No amendment to or exception from the Remuneration Policy is permitted without the prior approval of Management Body or a delegate of the Management Body.

Although the Management Body has ultimate responsibility for the implementation and supervision of the Bank's remuneration strategy, it also takes into account advice, views and material information received from the Bank's Control Functions, the Legal Department, Human Resources Department and, where appropriate, its shareholders. Furthermore:

- An independent, ad-hoc review is carried out by the Head of Internal Audit, with particular regard to the extent to which the Remuneration Policy is enforced and the findings of this review are submitted to the Management Body through the Audit Committee;
- The Risk Management Department assists in and informs on the definition of suitable risk-adjusted performance measures and has the responsibility of ensuring that the Remuneration Policy is aligned with the Bank's risk policies and assessing how the variable remuneration structure affects the risk profile and culture of the Bank and reports to the Management Body through the Risk Management Committee. The Risk Management Department validates and assesses risk adjustment data and it is also invited to attend the meetings of the Remuneration Committee on this matter;
- The Bank's Head of Compliance analyses how the Remuneration Policy affects the Bank's compliance with legislation, regulations, internal policies and risk culture and reports all identified compliance risks and issues of non-compliance to the Management Body. The findings of the Head of Compliance are taken into account by the Management Body during the approval, review procedures and oversight of the Remuneration Policy;
- Risk and Compliance Departments provide effective input in accordance with their roles into setting of bonus pools, performance criteria and remuneration awards where those departments have concerns regarding the impact on Employees behaviour and the riskiness of the business undertaken; and
- The Human Resources Department participates in and informs on the drawing up and the evaluation of the Remuneration Policy for the Bank, including the remuneration structure, remuneration levels and incentive schemes, in a way that do not only attract and retain Employees the Bank needs, but also assure that the Remuneration Policy is aligned with the Bank's risk profile.

Meetings were held amongst the departments of Compliance, Human Resources and Risk Management for the purpose of conducting an analysis of the personnel that falls under the definition of Material Risk Takers ("MRTs"), prior of presenting the final list to the Risk and Remuneration Committees. Also the calculation of the bonus pool for the year of 2017 was presented to the Risk and Compliance Departments. The presentation on the proposed approach for the calculation of the 2017 Annual Bonus was also presented to the Risk and Remuneration Committees for approval.

The Bank since the year of 2016 has introduced the following in relation to the determination of the variable component of remuneration:

- A non-cash instrument – Restricted Stock Unit;
- Specific ratios for the purpose of Risk Alignment of Variable Remuneration;
- Explicit Deferral Requirements for Cash and Non-cash Awards to MRTs;
- Expanded requirements and criteria for the application of Malus and Clawback arrangements.

The MB has established a Remuneration Committee (hereinafter the "RC") which as at 31 December 2017 comprised of 4 members who were appointed by the MB, of which the Chairperson and the other members were all Independent Directors. During 2017, the RC held five (5) meetings and its activities were guided by the "Terms of Reference of the Remuneration Committee" as approved by the MB.

The key duties and responsibilities of the RC were as follows:

- Provide its support and advice to the MB on the design of the Bank's Remuneration Policy;
- Support the MB in overseeing the remuneration policies, practices and processes, and the compliance with the Remuneration Policy;
- Formulate proposals for approval by the MB, as regards to the Remuneration Policy, and always ensure that those are in line with all the regulatory requirements;
- Ensure that internal control functions are involved in the design, review and implementation of the Remuneration Policy;
- Collaborate with other Committees of the MB, whose activities may have an impact on the design and proper functioning of the remuneration policies and practices, and provide adequate information to the MB, and where appropriate, to the shareholders' meeting about the activities performed;

- Ensure that those personnel members who are involved in the design, review and implementation of the remuneration policies and practices have relevant expertise and are capable of forming independent judgment, including suitability for risk management;
- In cooperation with the internal control functions, as well as other Committees (e.g. Audit & Risk), it must ensure on a regular basis that changes in the objectives of the Bank's business and risk strategy, long-term interests, corporate culture and values are adequately identified and accordingly embedded in the Remuneration Policy;
- Work closely with the Risk Committee to ensure that the Remuneration Policy is consistent with and promotes sound and effective risk management;
- Contribute actively in the process to identify the members of personnel whose professional activities have a material impact on the Bank's risk profile, in line with its responsibilities for the preparation of decisions regarding remuneration. Review and also approve, the exemptions made for those who do not have a material impact on the Bank's risk profile;
- Prepare decisions regarding remuneration, including those that have implications for the risk and risk management of the Bank and that are to be taken by the MB, in particular regarding the remuneration of the members of the MB in its management function, as well as of other identified staff;
- Assess the achievement of the performance targets and the need for ex-post risk adjustment, including the application of malus and clawback arrangements;
- Report on its main activities and results to the MB on a regular basis, but not less frequently than once per quarter;
- Conduct an annual self-assessment, and report conclusions and recommendations for improvements of its practices and changes thereafter to the MB;
- Circulate any minutes to the MB in advance of any MB meetings.

b. Information on link between pay and performance;

The Bank on an annual basis translates its long-term objectives, which derive from its business and risk strategy, corporate values, risk appetite and long-term interests as well as from methods used within the Internal Capital Adequacy Assessment (ICAAP) into financial and non-financial performance and professional development targets for Chief Executive Officer, Senior Executive Management, Organizational Departments and Employees within such departments.

Performance Targets are defined at the beginning of the accrual period by the immediate supervisors of Employees and all the departments of the Bank (including the Management Body for the Chief Executive Officer) in consultation and alignment with the Risk Management Department.

Targets for MRTs and other Heads of Departments within the Bank are set via Key Performance Indicators (KPIs), which differ depending on the business unit/profit centre and reflect the targets/objectives of the specific area. Indicatively, adherence to the Bank's approved policies and procedures, compliance with the regulatory and legal framework, efficiency and effectiveness of the control functions, the cost of tied-up capital that is associated to risks undertaken, are set by the Bank's Senior Executive Management. More specifically the Bank uses following criteria:

- Net profit;
- Return on Equity;
- RAROC;
- Strategy implementation;
- Compliance and conduct;
- Net interest income;
- Net fee & commission income;
- Volume of deposits;
- Volume of loans;
- Number of new NPLs;

- Implementation of new products and strategic initiatives;
- Other qualitative and quantitative indicators reflecting key duties and responsibilities of particular department/unit/employee.

Targets for the remaining personnel are set on departmental and unit level by direct supervisors using the Management by objectives approach.

After the end of the accrual period the Bank conducts the appraisal of actual performance of personnel vis-à-vis target setting. For this reason the participation in the annual employee appraisal is compulsory for all employees. The appraisals are also reviewed by the Bank's Senior Executive Management.

For the calculation of the 2017 annual bonus, the Bank has used the following approach:

Award = (Gross Monthly Base Salary Factor) * (Grade Factor) * (Length of Service Factor) * (Performance Factor) * (Bonus Pool Factor)

Where:

- **"Award"** - total gross amount to be awarded to Employee as a bonus for 2017 year;
- **"Gross Monthly Base Salary Factor"** - average amount of gross monthly fixed salary paid to Employee during the last three months of 2017;
- **"Grade Factor"** - a factor representing the standard bonus amount in terms of monthly salaries for the grade and position of the Employee;
- **"Length of Service Factor"** - multiplier representing duration of work of the Employee in 2017. If the Employee worked for less than 90 calendar days, the factor is zero, if from 91 to 365 then it is pro-rata calculation to the number days employed in 2017;
- **"Performance Factor"** - a factor representing the overall result of the Performance Appraisal (i.e. A++, A+, A, B, C);
- **"Bonus Pool Factor"** - a factor representing the level of achievement of strategic goals on the bank and/or on the business line/business unit level;

The Bank counterbalances the incentives of the Award of Variable Remuneration with measures to incentivize sound risk management. In particular:

I. Established risk sensitive performance criteria for the assessment of Employees and operational functions, for example:

   - Volume of new NPLs;
   - Risk-Adjusted Return on Capital (RAROC);
   - Other KPIs related to market and operational risks (for example: # of significant system errors led to unavailability of the core banking system).

II. Ensured that a proposed award out of the Bank-wide bonus pool does not lead the Bank to a negative financial performance (net loss) and/or a breach of capital and liquidity requirements to which the Bank is subject; and that no other ratios are breached, including each of the following:

   - Common Equity Tier I Ratio;
   - Total Capital Adequacy Ratio;
   - Liquid Assets Ratio;
   - Liquidity Coverage Ratio.

In order to conservatively take into account all material risks at the Bank's and business unit levels, and to achieve sound breakdown of undertaken risks by business units and different types of risks, the Bank uses the same measurement methods and risk allocation approaches as used within the ICAAP.

c. The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;

As a matter of principle, the Bank supports levels of remuneration and compensation necessary to attract, retain and motivate high quality people required to lead, manage and serve the Bank in a competitive environment. The Bank considers that appropriate levels of remuneration and compensation are essential to enhance the long-term interests of the Bank's stakeholders, including its shareholders. The Remuneration Policy therefore takes into account the competitiveness of the market in which it operates and the strategic targets of the business, but it also seeks to reward its employees who promote the Bank's corporate values, and who also support long-term generation of values.

The Bank strives to ensure that remuneration packages reflect the relevant duties and responsibilities, are fair and equitable, and incorporate rewards clearly and measurably linked to performance, both on an individual and on a corporate basis.

The Policy is in line with the Bank's business strategy and risk tolerance, objectives, values and long-term interests. The Policy also includes other values of the Bank such as compliance, culture, ethics, conduct towards customers, measures to mitigate conflicts of interest, etc. The Bank does not reward individuals for taking risks in excess of the Bank's risk tolerance and at all times gives due consideration to the longer term. The Policy enables the Bank to achieve and maintain a sound capital base. The overall remuneration is included in the capital and liquidity planning of the Bank and contributes to safeguarding a sound capital base.

Remuneration consists of:

- All forms of payments and benefits, monetary or non-monetary, in exchange for services rendered by an employee to the Bank. Remuneration is either Fixed Remuneration or Variable Remuneration, there is no third category of Remuneration;
- An employee's Variable Remuneration is calculated by reference to that Employee's Fixed Remuneration.

Where a variable remuneration is paid to an MRT who has an impact on the risk profile of the Bank, it is not a pure up-front cash payment but it contains a deferred component which considers the risk horizon of the underlying performance. At least 40% of the variable remuneration component is deferred over a period of not less than three to five years and is aligned with the nature of the business, its risks and the activities of the MRT in question.

The variable remuneration, including any deferred portion, is paid or vests only if it is sustainable based on the financial situation of the Bank. Without prejudice to the general principles of the local legal framework 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 deductions in pay-outs of amounts previously earned, including through malus or clawback arrangements. Whilst taking into account all legal and fiscal constraints, any up-front bonus payment shall be subject to clawback if it is later established that it resulted from fraudulent activities. Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata spreading and the vested amount shall not be sooner than twelve months after the accrual.

Up to one hundred percent (100%) of the total variable remuneration shall be subject to malus or clawback arrangements. Ex-post risk adjustment (or performance adjustment) is used by the Bank such as malus or clawback arrangements. By using these mechanisms the Bank adjusts the remuneration of the employees in certain circumstances, as stated below. Ex-post risk adjustment is performance related and is a response to the actual risk outcomes of the employee's actions. These mechanisms enable the Bank to perform an analysis (similar to back testing) as to whether its initial decision regarding the deferred remuneration of an employee was correct. As a general rule, malus/clawback arrangements result in a reduction of the variable remuneration.

The Bank does not have a specific policy in place for early termination of a contract and, should such an early termination occur, the applicable labour legislation is adhered to. Nonetheless, payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.

Independent Directors of the Bank, who are members of the Management Body, receive an annual fixed fee, and no variable remuneration is paid to them.

The employees of the Bank are categorised as follows:

01. Executive Directors and Chief Executive Officer
02. Members of the Senior Executive Management
03. Control Functions
04. Other Material Risk Takers
05. Heads of Departments/Units who do not fall under any of the above categories
06. Other Employees

The number of staff employed by the Bank at 31 December 2017 was 393 (2016: 357).

d. The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;

For 2017 the Bank has applied the following deferral scheme of variable remuneration:

Categories	Non-Deferred	Deferred
Members of the SEM and Employees with bonus above 0.5 mln EUR (High Earners)	20% in cash, immediate settlement 20% in RSUs with a retention period of 1 year	30% in cash for 5 years, proportional settlement 30% in RSUs for 5 years, proportional vesting with a retention period of 1 year
Control Functions and other MRTs	30% in cash, immediate settlement 30% in RSUs with a retention period of 1 year	20% in cash for 3 years, proportional settlement 20% in RSUs for 3 years, proportional vesting with a retention period of 1 year
Non-MRTs	100% in cash, immediate settlement	-

The actual ratio between fixed and variable remuneration in 2017 stood on average at 40% for Executive Directors, Chief Executive Officer and Senior Executive Management; at 18% for Other Risk Takers; at 32% for control functions; at 23% for deposits and transactional banking; at 29% for corporate lending and investment banking.

e. Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;

The variable portion is clearly connected to the work and performance of the individual, the performance of his/her department and the overall performance of the Bank. The goals are based on factors that support the Bank's long-term strategy.

For variable remuneration purposes, for the MRTs, the Bank has designed a non-cash instrument as per the Article 94(1)(l) of Directive 2013/36/EU. For Non-MRTs the variable remuneration consists of upfront cash.

f. The main parameters and rationale for any variable component scheme and any other non-cash benefits;

In addition to the information provided in point (b) above, the KPIs clearly measure performance, and are linked to the strategic objectives of the Bank. Ultimately, they monitor the execution of the business strategy.

Through the application of KPIs, the Bank's aim is to equip decision-makers with the information they need to make informed decisions that lead to improvements, to comply with external and internal reporting requirements and to guide and direct people's behaviours and actions in relation to performance. Results from KPIs are used to set goals, to objectively assess the achievement of these goals, and to provide feedback on any unwanted variance between achievements and goals. KPI results are linked to reward and recognition structures.

All employees of the Bank are categorised by grades. The classification of employees, and the assignment of a grade, is based on their management and organisational role, hierarchy, existing reporting lines, qualifications and experience as well as annual remuneration package. Certain non-cash benefits such as type of medical insurance scheme, life insurance, limit of monthly corporate mobile phone, class of air tickets for business trips etc., apply to each grade.

g. Aggregate quantitative information on remuneration, broken down by business area;

Business Area	Total Remuneration EUR000
Executive Directors, Chief Executive Officer and Senior Executive Management	13.553
Control Functions	2.729
Deposits and transactional banking	4.653
Corporate lending & investment banking	4.430
Other	16.328
Total remuneration	**41.693**

h. Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:

I. The amounts of remuneration for the financial year split into fixed and variable remuneration, and the number of beneficiaries;

The total remuneration of the Executive Directors, Chief Executive Officer and Senior Executive Management (headcount of 7) for 2017 was EUR13.553 thousand including a variable compensation of EUR3.887 thousand.

The total remuneration of Other Risk Takers (headcount of 26) for 2017 was EUR6.510 thousand including a variable compensation of EUR980 thousand.

II. The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;

Executive Directors, Chief Executive Officer and Senior Executive Management: Variable remuneration was granted in the form of cash (EUR1.943 thousand) and in the form of non-cash instruments (EUR1.944 thousand).

Other Risk Takers: Variable remuneration was granted in the form of cash (EUR586 thousand, including severance payments disclosed under point (vi) below) and in the form of non-cash instruments (EUR394 thousand).

III. The amounts of outstanding deferred remuneration split into vested and unvested portions;

Executive Directors, Chief Executive Officer and Senior Executive Management: As of 31 December 2017, outstanding deferred remuneration amounted to EUR3.325 thousand (non-vested EUR1.783 thousand and vested EUR1.542 thousand).

Other Risk Takers: As of 31 December 2017, outstanding deferred remuneration amounted to EUR572 thousand (non-vested EUR290 thousand and vested EUR282 thousand).

IV. The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;

Executive Directors, Chief Executive Officer and Senior Executive Management: Deferred remuneration awarded for the year 2017 was EUR2.332 thousand. Deferred remuneration paid out during 2017 for the previous years amounted to EUR1.122 thousand. There were no amounts reduced through performance adjustments.

Other Risk Takers: Deferred remuneration awarded for the year 2017 was EUR340 thousand. Deferred remuneration paid out during 2017 for the previous years amounted to EUR97 thousand. There were no amounts reduced through performance adjustments.

V. New sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;

During the financial year, sign-on payments of EUR10 thousand were made to 1 beneficiary. Severance payments of EUR193 thousand were made to 2 beneficiaries.

VI. The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;

Severance payments of EUR193 thousand were awarded to 2 beneficiaries (the highest award to a single person being EUR126 thousand).

i. the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;

The number of individuals being remunerated EUR1 million or more for 2017 amounted to 6 employees, with 2 employee being in the pay band from EUR1 million to EUR1.5 million, 1 employee being in the pay band from EUR1.5 million to EUR2 million, 2 employees being in the pay band from EUR2.5 million to EUR3 million, and 1 employee being in the pay band from EUR3 million to EUR3.5 million.

Annexes

Annex I

Transitional Own Funds Disclosure Template

		Amount EUR000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	139.071
	- Of which: Instrument type 1 - Share Capital	18.471
	- Of which: Instrument type 2 - Share Premium	120.600
	- Of which: Instrument type 3	-
2	Retained earnings	268.559
3	Accumulated other comprehensive income (and other reserves)	36.249
3a	Funds for general banking risk	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Minority interests (amount allowed in consolidated CET1)	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**443.879**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(161)
8	Intangible assets (net of related tax liability) (negative amount)	(1.307)
9	Empty set in the EU	-
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) are met) (negative amount)	-
11	Fair value reserves related to gains or losses on cash flow hedges	-
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 and indirect 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	Empty set in the EU	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
20b	- Of which: qualifying holdings outside the financial sector (negative amount)	-
20c	- Of which: securitisation positions (negative amount)	-
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) are met) (negative amount)	-
22	Amount exceeding the 15% threshold (negative amount)	-

		Amount EUR000
23	- Of which: 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	-
24	Empty set in the EU	-
25	- Of which: deferred tax assets arising from temporary differences	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1.468)**
29	**Common Equity Tier 1 (CET1) capital**	**442.411**
30-36	Additional Tier 1 (AT1) capital: instruments	-
37-42	Additional Tier 1 (AT1) capital: regulatory adjustments	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1(AT1) capital	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**442.411**
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	23.804
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts 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	23.804
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-
53	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 and indirect 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	- Of which new holdings not subject to transitional arrangements	-
54b	- Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-
55	Direct and indirect 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	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
56a	Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-
	- Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-

		Amount EUR000
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-
	- Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-
	- Of which: possible filter for unrealised losses	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	**Tier 2 (T2) capital**	**23.804**
59	**Total capital (TC = T1 + T2)**	**466.215**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts)	-
	- Of which: Items not deducted from CET1 (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	-
	- Of which: Items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	-
60	**Total risk weighted assets**	**2.195.650**
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**20.1%**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**20.1%**
63	**Total capital (as a percentage of total risk exposure amount)**	**21.2%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	0.00%
65	- Of which: capital conservation buffer requirement	-
66	- Of which: countercyclical buffer requirement	-
67	- Of which: systemic risk buffer requirement	-
67a	- Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0.00%
69	[non relevant in EU regulation]	-
70	[non relevant in EU regulation]	-
71	[non relevant in EU regulation]	-
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital 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 10% threshold and net of eligible short positions)	-
74	Empty set in the EU	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-

		Amount EUR000
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)	-

Annex II

Capital Instruments main features Template		Tier 1
1	Issuer	RCB Bank Ltd
2	Unique identifier	N/A
3	Governing law(s) of the instrument	Law of Cyprus
	Regulatory treatment	**Solo**
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub)consolidated	
7	Instrument type	Ordinary Shares
8	Amount recognised in regulatory capital	€139 million
9	Nominal amount of instrument	€18.471 thousand
9a	Issue price	€1.71 nominal share
9b	Redemption price	N/A
10	Accounting classification	Shareholder’s Equity
11	Original date of issuance	Multiple
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	**Convertible or non-convertible**	
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A

Capital Instruments main features Template		Tier 1
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A

Annex III

Capital Instruments main features Template		Tier 2
1	Issuer	RCB Bank Ltd
2	Unique identifier	N/A
3	Governing law(s) of the instrument	Law of Cyprus
	Regulatory treatment	
4	Transitional CRR rules	N/A
5	Post-transitional CRR rules	N/A
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 Capital
8	Amount recognised in regulatory capital	€23.8 million
9	Nominal amount of instrument	US$100 million
9a	Issue price	US$100 million
9b	Redemption price	-
10	Accounting classification	Liabilities
11	Original date of issuance	06/06/2012
12	Perpetual or dated	Dated
13	Original maturity date	05/06/2019
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed Interest
18	Coupon rate and any related index	7.07%
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	**Convertible or non-convertible**	
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A

Capital Instruments main features Template		Tier 2
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A

Annex IV

CRR Leverage Ratio - Disclosure Template	
Reference date	31/12/2017
Entity name	RCB BANK LTD
Level of application	Individual

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts In EUR000
1	Total assets as per published financial statements	9.153.902
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	43.140
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	62.159
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(1.896)
8	**Total leverage ratio exposure**	**9.257.305**

Table LRCom: Leverage ratio common disclosure		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	9.038.678
2	(Asset amounts deducted in determining Tier 1 capital)	(1.468)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	9.037.210
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	29.904
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13.236
EU-5a	Exposure determined under Original Exposure Method	43.140

6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**43.140**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	114.796
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**114.796**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	136.423
18	(Adjustments for conversion to credit equivalent amounts)	(74.264)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**62.159**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on-balance sheet and off-balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on-balance sheet and off-balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on-balance sheet and off-balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**442.411**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**9.257.305**
Leverage ratio		
22	**Leverage ratio**	**4.78%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased In
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	9.037.210
EU-2	Trading book exposures	159.312
EU-3	Banking book exposures, of which:	8.877.898
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	2.002.832
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	52.834
EU-8	Secured by mortgages of immovable properties	2.180
EU-9	Retail exposures	1.001
EU-10	Corporate	6.770.259
EU-11	Exposures in default	2.232
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	46.560

Annex V

Liquidity Coverage Ratio Disclosure Template average for 2017

High-Quality Liquid Assets		Total unweighted value EUR000	Total weighted value EUR000
Number of data points used in the calculation of averages		**12**	**12**
1	Total high-quality liquid assets (HQLA)	-	1.438.323
Cash-Outflows			
2	Retail deposits and deposits from small business customers, of which:	354.975	250.753
3	Stable deposits	10.635	532
4	Less stable deposits	117.650	23.530
5	Unsecured wholesale funding	1.317.404	1,111,203
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	1.316.154	1.109.953
8	Unsecured debt	1.250	1.250
9	Secured wholesale funding	-	167
10	Additional requirements	118.826	53.428
11	Outflows related to derivative exposures and other collateral requirements	11.640	11.640
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	107.186	41.788
14	Other contractual funding obligations	107.775	107.775
15	Other contingent funding obligations	1.780	2.780
16	**Total cash outflows**	**-**	**1.526.105**
Cash-inflows			
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	419.794	414.251
19	Other cash inflows	25.710	25.710
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	-	-
20	**Total cash inflows**	**445.504**	**439.962**
EU-20a	Fully exempt inflows	-	-
EU-20b	Inflows Subject to 90% Cap	-	-
EU-20c	Inflows Subject to 75% Cap	445.504	439.962
Total adjusted value			
21	**Liquidity buffer**	**-**	**1.438.323**
22	**Total net cash outflows**	**-**	**1.086.144**
23	**Liquidity coverage ratio (%)**	**-**	**132%**

Scope of consolidation (solo)		Total unweighted value EUR000 31.03.2017	Total weighted value EUR000 31.03.2017	Total unweighted value EUR000 30.06.2017	Total weighted value EUR000 30.06.2017	Total unweighted value EUR000 30.09.2017	Total weighted value EUR000 30.09.2017	Total unweighted value EUR000 31.12.2017	Total weighted value EUR000 31.12.2017
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	1.206.441	-	1.285.569	-	1.446.910	-	1.814.374
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	325.607	222.679	332.864	234.496	316.292	248.464	445.139	297.372
3	Stable deposits	10.953	548	10.984	549	9.646	482	10.955	548
4	Less stable deposits	115.654	23.131	109.917	21.983	73.330	14.666	171.698	34.340
5	Unsecured wholesale funding	1.120.634	936.489	1.250.261	1.052.377	1.381.294	1.166.159	1.517.425	1.289.786
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	1.119.679	935.534	1.249.920	1.052.036	1.381.258	1.166.123	1.513.757	1.286.118
8	Unsecured debt	955	955	341	341	36	36	3.668	3.668
9	Secured wholesale funding	-	-	-	-	-	-	-	167
10	Additional requirements	110.192	73.118	118.981	48.953	119.841	45.857	126.291	45.783
11	Outflows related to derivative exposures and other collateral requirements	3.960	3.960	11.088	11.088	12.472	12.472	19.039	19.039
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	106.232	69.158	107.892	37.865	107.369	33.385	107.252	26.744
14	Other contractual funding obligations	133.710	133.710	105.873	105.873	111.603	111.603	79.913	79.913
15	Other contingent funding obligations	2.804	2.804	2.859	2.859	2.701	2.701	2.757	2.757
16	**Total cash outflows**	**-**	**1.368.800**	**-**	**1.444.558**	**-**	**1.574.784**	**-**	**1.716.278**
Cash-inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	316.581	313.608	519.317	514.544	396.859	391.125	446.420	437.730
19	Other cash inflows	41.540	41.540	13.428	13.428	25.535	25.535	22.338	22.338

Scope of consolidation (solo)		Total unweighted value EUR000 31.03.2017	Total weighted value EUR000 31.03.2017	Total unweighted value EUR000 30.06.2017	Total weighted value EUR000 30.06.2017	Total unweighted value EUR000 30.09.2017	Total weighted value EUR000 30.09.2017	Total unweighted value EUR000 31.12.2017	Total weighted value EUR000 31.12.2017
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	-	-	-	-	-	-	-	-
20	**Total cash inflows**	**358.121**	**355.148**	**532.745**	**527.972**	**422.393**	**416.659**	**468.757**	**460.067**
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	358.121	355.148	532.745	527.972	422.393	416.659	468.757	460.067
Total adjusted value									
21	**Liquidity buffer**	**-**	**1.206.441**	**-**	**1.285.569**	**-**	**1.446.910**	**-**	**1.814.374**
22	**Total net cash outflows**	**-**	**1.013.652**	**-**	**916.586**	**-**	**1.158.125**	**-**	**1.256.211**
23	**Liquidity coverage ratio (%)**	**-**	**119%**	**-**	**140%**	**-**	**125%**	**-**	**144%**

Currently the Bank's main liquidity source included in the liquidity buffer stems from placements with the Central Bank of Cyprus. As such the Bank's main source of liquidity concentration risk is with the Regulator, which poses minimal risk in the event of liquidation of assets, if the need arises.

On the other end, the Bank's funding source for LCR purposes arise from loan repayments from the performing exposures portfolio. As regards funding concentration risk, the Bank continuously monitors the performing loans portfolio to ensure that any funding risk that may arise as a result of any potential portfolio delinquencies are promptly addressed and potential funding risk is identified and appropriately managed.

The Bank does not have any derivative exposures within its liquidity buffer, and thus the buffer is not subject to the risk of potential collateral calls which might affect its level. The Bank also notes that there is no currency mismatch presented within the LCR.

Liquidity management is performed at the Bank level, as the Bank does not have any material subsidiaries or overseas branches that effect the management of liquidity given the LCR requirements.

Finally, the Bank's management considers that all items relevant to the management of the liquidity and funding profile are appropriately disclosed in the LCR template. Should the Bank's profile change the relevant amendments will be effected on the LCR template, where applicable.

Annex VI

			RWAs		Minimum capital requirements
			T EUR000	T-1 EUR000	T EUR000
	1	Credit risk (excluding CCR)	1.306.623	1.426.996	104.533
Article 438(c)(d)	2	Of which the standardised approach	1.306.623	1.426.996	104.533
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Article 107 and Article 438(c)(d)	6	CCR	155.398	198.974	12.429
Article 438(c)(d)	7	Of which mark to market	40.602	23.797	3.245
Article 438(c)(d)	8	Of which original exposure	114.796	175.177	9.184
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Article 438(c)(d)	12	Of which CVA	43.063	50.900	3.445
Article 438(e)	13	Settlement risk	-	-	-
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	-	-	-
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	-	-	-
Article 438 (e)	19	Market risk	147.816	243.234	11.825
	20	Of which the standardised approach	-	-	-
	21	Of which IMA	-	-	-
Article 438(e)	22	Large exposures	-	-	-
Article 438(f)	23	Operational risk	542.750	499.288	43.420
	24	Of which basic indicator approach	-	-	-
	25	Of which standardised approach	542.750	499.288	43.420
	26	Of which advanced measurement approach	-	-	-
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Article 500	28	Floor adjustment	-	-	-
	29	**Total**	**2.195.650**	**2.419.392**	**175.652**

Annex VII

Exposure classes	On-balance sheet amount EUR000	Off-balance sheet amount EUR000	On-balance sheet amount EUR000	Off-balance sheet amount EUR000	RWAs EUR000	RWA density EUR000
Central governments or central banks	2.002.832.00	-	2.002.832	-	327	0%
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	6.807	-	6.807	-	5.863	86%
Corporates	6.794.559	93.329	1.167.068	21.771	1.187.220	100%
Retail	1.001	199	1.001	199	900	75%
Secured by mortgages on immovable property	2.180	-	2.174	-	761	35%
Exposures in default	4.150	-	2.232	-	2.232	100%
Exposures associated with particularly high risk	104.175	40.902	93.850	20.180	171.045	150%
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	85.813	1.995	85.814	1.995	51.360	58%
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	46.560		46.560	-	42.310	91%
Total	**9.048.077**	**136.425**	**3.408.338**	**44.145**	**1.462.018**	**44%**

800 00722 | +357 25 355 722 | www.rcbcy.com

RCB BANK LTD. Private Company.
Registration number: 72376. Registered office: 2, Amathountos street, 3105 Limassol, Cyprus.