RCB BANK LTD

Pillar III Disclosures 2018

2018

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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 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 directly three subsidiaries, RCB Trustees (Cyprus) Limited, RCB Credit System LTD, RCB Finance LTD, which are incorporated and domiciled in Cyprus. The Bank also wholly owns indirectly one subsidiary, LSA Finance DAC, which is incorporated and domiciled in Ireland. RCB Trustees (Cyprus) Limited is the only active subsidiary of the Bank with insignificant operations while other subsidiaries remain dormant. For prudential purposes, consolidation of the directly and indirectly own subsidiaries is not necessary since it does not have an impact on the Bank's Pillar III. Further information on annex 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 6 times during 2018. 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, as the second line of defense, 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. In their role as the second line of defense, these functions collaborate where necessary to ensure that the risks assumed by the Bank are consistent with the Bank's strategy and business profile.

The risk management organizational structure

The Bank's Risk Management acts as a strong independent department to support effective risk management across all risks to which the Bank is exposed in a manner consistent with the Bank's risk appetite. The risk management framework implemented by the Bank complies with the standards set by the CBC and the ECB.

The Bank's Chief Risk Officer (CRO) has sufficient independence and seniority to challenge decisions that affect the Bank's exposure to risk. The CRO is able to communicate directly with the MB and relevant committees, in particular the RC and the Credit, Assets and Liabilities Committee ("CALCO"). The CRO has been empowered with the right to veto decisions taken by the CALCO, with the grounds for objection to be formally documented in the minutes of the relevant CALCO meeting. Furthermore the CRO is the Chairman of the CALCO.

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 Risk Management function consists of three units, the Credit Underwriting unit, the Risk Data Aggregation and reporting unit and the Strategic, Market and Operational Risk unit. The Credit Underwriting unit provides an independent opinion for the credit risk undertaken by the Bank. The Risk Data Aggregation and Reporting unit is responsible for the monitoring and reporting, describing the risk profile of the Bank. The Strategic, Market and Operational Risk unit is responsible for forward looking assessment of risks caused by business model and strategy and controlling the market and interest rate risk, operational risk and liquidity risk.

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 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.

The CALCO 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.

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.

During 2018 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.

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 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.

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 judgment 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.

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 RMD establishs regular and transparent reporting mechanisms so that MB and all relevant functions are provided with reports in a timely, accurate, concise, understandable and meaningful manner. The reporting framework is defined and documented. The Bank's risk reporting involves sound internal consideration and communication of risk strategy and relevant risk data (e.g. exposures and key risk indicators), both horizontally across the Bank and up and down the management chain. The CRO and RMD reports to the senior management and the MB on a regular basis. Such reports contain the following minimum information: internal assessment and measurement of the risks faced by the Bank; results and assumptions of stress tests or scenario analyses; calculation of capital requirements and capital adequacy ratio; and information about the external environment to identify market conditions and trends that may have a bearing on the Bank's current and future risk profile; summary of the results of the risk and control self-assessment exercise conducted during the year; information on operational losses incurred during the year under review; information on key risk indicators and key performance indicators on non-performing loans monitored by the Bank; other risk related information.

Capital allocation and planning

The Bank uses the Internal Capital Adequacy Assessment Process ("ICAAP") as an input for capital assessment by identifying and assessing the various material 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 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 interaction of business departments with compliance, internal audit, risk control for credit risk purposes is described under internal 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 business departments. Following the review and issue of recommendations by business departments, 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 legal assessment is also sought.

During 2018, 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 internal operational system, developed by international world name vendor with respected reputation in that sphere.

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.

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, which attract counterparty credit risk. The exposure calculation is denoted in internal procedures and depends on the market value (if positive), the type of contract and the maturity of the contract.

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. An impairment review of the Bank’s financial assets is carried out on a regular basis.

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 IFRS 9 standard loss allowances are measured based on a “forward-looking” impairment model, which recognize Expected Credit Losses (ECL).

The Bank assesses the ECL for loans and advances to customers and banks, debt and other financial instruments measured at amortized cost and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts.

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating following components: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. In order to ensure appropriate incorporation of credit risk factors in the modelling process, the Bank runs geographic and industry specific models, which take into account a credit cycle adjustment and relevant forward looking information. In accordance with IFRS-9 the Bank applies a three stage approach for impairment, based on changes in credit quality since initial recognition.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. The expected losses are discounted to present value at the end of the reporting period. The Discount Rate represents the original effective interest rate for the financial instrument.

The level of ECL depends on whether the credit risk of the borrower has increased significantly since initial recognition. For Stage 1 instruments loss allowance is based on 12 month ECLs. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of portfolios; and (iii) assessment based on external ratings.

Impairment allowances are determined based on the forward-looking ECL models. The Bank considers a wide range of information when applying ECL accounting models. When assessing the adequacy of the allowances the Bank takes into account relevant factors and expectations at the reporting date that may affect the collectability of remaining cash flows over the life of lending exposures. The Bank considers information which goes beyond historical and current data, and takes into account reasonable and supportable forward-looking information, including macroeconomic factors that are relevant to the exposures being evaluated in accordance with the applicable accounting framework. The Bank assesses systematic and idiosyncratic credit risk factors.

The objective of the bank with regards to including forward-looking information in the assessment of a significant increase in credit risk and expected credit loss estimation is to recognize SICR on a timely basis as well as to result in impairment allowances that are more responsive to changes in expectation of credit risk and credit losses.

The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. These probability-weighted ECLs are determined by running scenarios through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As regards to the introduction to IFRS 9 and the impact to capital and leverage ratio, the bank choose not to apply the transitional arrangements and the own funds, capital ratios and leverage reflect the full impact.

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.

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 framework and operational credit limits, including country and industry limits and collateral requirements; a robust credit granting process which includes credit analysis by the business departments and review by the RMD and frequent monitoring of repayment ability; the boundaries for cash collateralized lending and the credit procedure; the internal credit rating software; provisioning process; ext. 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.

It should be noted that the Bank does not make any use of on and off balance sheet netting for credit and counterparty credit risk, neither use of credit derivative products for mitigating its counterparty risk. The Bank does not use hedging for credit risk. For capital adequacy calculation purposes the Bank accept only cash-collateral for mitigating credit risk.

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 respected 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 and off balance sheet positions arising from movements in market prices across several risk factors including fixed income, equity, foreign exchange and interest rates.

For the purposes of a more comprehensive assessment of the main risk drivers and for capital requirements calculations, Market risk is split into **general** and **specific** market risk.

General Market Risk factors which are driven by macro-economic, geo-political and other market-wide considerations independent of any instrument or single name. They include changes in the level, slope or shape of yield curves (interest rates), widening or tightening of traded credit index spread levels, and directional movements in equity market indices, exchange rates and commodity prices. Changes in associated volatilities and correlations between risk factors – which may be unobservable or only indirectly observable also fall under General Market Risk.

Specific market risk relates to exposures to single names arising from positions in their debt and equity instruments and from derivatives (including derivative securities), where such exposures are tradable and arise from trading activity.

General market risks arising from both trading and non-trading are subject to this risk management framework. Exposure to single name specific risk is only subject to this framework if it arises from trading activities.

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, 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:

- Price risk;
- Currency risk;
- Interest rate risk in the trading book; and
- Credit Spread Risk.

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

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

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 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.

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 of credit spread risk is performed through the monitoring of limits and stress testing exercises.

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.).

The management techniques in place for the mitigation of market risk are as follows: framework and operational market and trading limits and adjusted monitoring process of limit utilization. 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 and hedging 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:

01. Exceptional changes in market prices;
02. Liquidity shortages;
03. Widening credit spreads;
04. 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 internal procedure, 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 respected 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;
- 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 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. 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 internal procedure. 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. The MB of the Bank has assessed and considers the liquidity position of the Bank as adequate to support the current operations, medium term strategic goals, as well any stress conditions that may arise.

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 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 2018, 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 of 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.

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(MB). As of 31 December 2018 the Management Body (MB) consists of 11 members. The MB consists of 9 non-executive members, of whom 7 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, the Bank recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in age, gender and educational and professional background to reflect an adequately broad range of experiences and facilitate a variety of independent opinions and critical challenge. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

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. and is incorporated under the Bank's Diversity Policy Which states that the board shall strive to have more than 2 female members. However, the selection of female candidates to join the Board is depends on the pool of candidates with the necessary skills knowledge and experience, with the ultimate decision to be based on merit and contribution the candidate will bring to the Board.

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	1	1	0	1	0
Petros Clerides	0	1	0	1	0
Erato Kozakou Marcoullis	0	1	5	1	0
Christoforos Antoniou Pissarides	0	3	0	1	2
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
Christakis Santis	0	3	1	1	2

***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 2018 were as follows:

	EUR000
Common Equity Tier 1:	
Share capital	18.471
Share premium	120.600
Retained earnings and accumulated comprehensive income	316.311
Less: intangible assets	(3.243)
Asset value adjustments due to prudent valuation	(112)
Additional Tier 1 capital	**0**
Total Tier 1 capital	**452.027**
Tier 2 capital:	
Subordinated loan capital	7.465
Total Tier 2 capital	**7.465**
Total regulatory capital	**459.492**

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 €7.5mln. 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 2018, the Tier 1 was in excess of the minimum regulatory requirements. After the Supervisory Review and Evaluation Process (SRB) 2017, it was required from the Bank to maintain Pillar II own funds requirement of 2.75%.

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	396.311	316.311	(80.000)
Intangible Assets	(3.243)	(3.243)	-
Prudential Filters	-	(112)	(112)
Subordinated loan	87.783	7.465	(80.318)
Total Own Funds	**619.922**	**459.492**	**(160.430)**

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 2018. 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 2018, 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.

Overview of risk weighted assets

The below table provides and overview of total risk weighted assets in comparison with the previous year. In comparison with the 2017 risk weighted exposure there are no significant changes in terms of risk weighted assets. It can be observed that the exposures subject to credit valuation adjustment decreased in comparison to 2017, and this is reflected to the CVA risk weighted assets. The reason is that the Bank in comparison with the 2017 had lower exposure value to securities financing transactions and derivative exposure class. For further information, you can refer to Annex VI.

	RWA 2017 EUR000	RWA 2018 EUR000	Capital Requirements 2018 EUR000
Credit Risk	1.462.021	1.355.023	108.403
Market Risk	147.816	121.161	9.693
Operational Risk	542.750	437.363	34.989
Credit Valuation Adjustment	43.063	21.800	1.744
Total	**2.195.650**	**1.935.347**	**154.829**

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

6.1.1. 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 2018

Exposure Class	0%	20%	35%	50%	75%	100%	150%	250%	Total	Of which unrated
Central Gov or Central Banks	1.105.688	-	-	-	-	-	-	3.458	1.109.146	1.009.146
Institutions	-	-	-	-	-	4.326	-	-	4.326	-
Claims with short-term credit assessment	-	45.455	-	3.364	-	3.910	3.024	-	55.753	-
Corporates	-	-	-	-	-	1.194.187	-	-	1.194.187	1.194.187
Retail items	-	-	-	-	996	-	-	-	996	996
Secured by mortgages on IMP	-	-	1.200	-	-	-	-	-	1.200	1.200
Exposures in Default	-	-	-	-	-	3.803	-	-	3.803	3.803
Items associated with high risk	-	-	-	-	-	-	105.008	-	105.008	105.008
Other items	11.660	-	-	-	-	36.070	-	-	47.730	47.730
Total	**1.117.348**	**45.455**	**1.200**	**3.364**	**996**	**1,242,296**	**108.032**	**3.458**	**2.522.149**	**2.362.070**

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 2018

Exposure class	Risk Weighted Exposure EUR000	Capital Requirements EUR000
Central Governments or Central Banks	8.645	692
Institutions	4.326	346
Exposures to institutions and corporates with short-term credit assessment	19.219	1.538
Corporates	1.169.462	93.557
Retail items	747	60
Secured by mortgages on immovable property	420	34
In Default	1.180	94
Items associated with particular high risk	114.954	9.196
Other items	36.070	2.886
	1.355.023	**108.403**

Within the asset classes of Institutions and Corporates, capital requirements of €3.9 mln relate to risk and €48.8mln exposure to financial guarantees.

Analysis of counterparty credit risk exposures by approach as at 31 December 2018

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	-	5.012	9.462	-	-	14.474	13.405
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)	-	-	-	-	-	34.275	34.275
Financial collateral comprehensive method (for SFTs)	-	-	-	-	-	-	-
VaR for SFTs	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**47.680**

Analysis of counterparty credit risk exposures by portfolio and risk weight as at 31 December 2018

	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	-	-	-	-	-	-	-	-	4.326	-	-	4.326	-
Corporates	-	-	-	-	-	-	-	-	34.928	-	-	34.928	34.928
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	953	2.631	-	-	3.894	2.017	-	9.495	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**953**	**2.631**	**-**	**-**	**43.148**	**2.017**	**-**	**48.749**	**34.928**

6.1.2. Market risk - Standardized approach

6.1.2.1. 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.

6.1.2.2. 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 2018, the Bank did not have any exposures to equities.

6.1.2.3. 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 2018, since the overall net foreign exchange position was less than 2% of the Bank's own funds.

6.1.2.4. Minimum capital requirements for market risk

	RWAs EUR000	Capital Requirements EUR000
- Interest rate risk (general and specific)	121.161	9.693
- Equity risk (general and specific)	-	-
- Foreign exchange risk	-	-
- Commodity risk	-	-
Options	-	-
- Simplified approach	-	-
- Delta-plus method	-	-
- Scenario approach	-	-
Securitisation	-	-
Total	**121.161**	**9.693**

6.1.3. Operational risk, Standardized approach

As at 31 December 2018, the capital requirements calculated in accordance with the principles of the standardized approach amounted to €34.9 mln.

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

As at 31 December 2018 there were no additional own fund requirements relating to any excesses on limits for large exposures.

6.1.5. Capital Value Adjustment

As at 31 December the capital requirements for CVA was €1.7 mln.

CVA Capital charge	Exposure value EUR000	RWAs EUR000	Capital Requirements EUR000
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	48.479	21.800	1.744
Total subject to the CVA capital charge	48.479	21.800	1.744

6.2. Capital Requirements Summary

The Bank's Tier 1 capital ratio as at the end of 2018 was 23.4% and the total capital adequacy ratio was 23.7%.

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

	Risk Weighted Exposure EUR000	Capital Requirements EUR000
Credit Risk	1.355.023	108.403
Market Risk	121.161	9.693
Operational Risk	437.363	34.989
Credit Valuation Adjustment	21.800	1.744
Total	**1.935.347**	**154.829**

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 2capital 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. The Bank currently does not apply any CRM methods for the counterparty credit risk transactions.

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.

The Bank was in compliance with the regulatory limits as regards to the counterparty credit risk exposures.

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 2018, the gross positive fair value of derivative contracts was €5 mln.

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 2018, the Bank's total derivative exposure value was €14.4mln, resulting in capital requirements of €1 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.

The definitions of credit impaired and defaulted exposures applied for accounting and regulatory purposes are the same.

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.

Exposure to credit risk is largely managed by detailed credit risk assessment performed by the lending business departments prior to the issue of loans and by ensuring that adequate collateral is obtained. The assessments are independently reviewed by the Risk Management Department. 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.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("lifetime ECL"). If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a lifetime ECL.

The level of ECL depends on whether the credit risk of the borrower has increased significantly since initial recognition. For Stage 1 instruments loss allowance is based on 12 month ECLs. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

The Bank considers a wide range of information when applying ECL accounting models. When assessing the adequacy of the allowances the Bank takes into account relevant factors and expectations at the reporting date that may affect the collectability of remaining cash flows over the life of lending exposures. The Bank considers information which goes beyond historical and current data, and takes into account reasonable and supportable forward-looking information, including macroeconomic factors that are relevant to the exposures being evaluated in accordance with the applicable accounting framework. The Bank assesses systematic and idiosyncratic credit risk factors.

The Bank identified certain key economic variables (including GDP, equity indices, and global oil indices) that correlate with developments in credit risk and ECLs. The probability-weighted ECLs are determined by running scenarios through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty. Thus the actual outcomes may be different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria: (i) the borrower is more than 90 days past due on its contractual payments; (ii) 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.

Elements taken as indications of unlikeliness to pay include the following:

- the Bank puts the credit obligation on non-accrued status;
- the Bank recognises a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Bank taking on the exposure;
- the Bank sells the credit obligation at a material credit-related economic loss;
- the Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees;
- the Bank has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Bank;
- the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Bank.

The defaulted exposure classification ends on the date when both of the following conditions have taken place: a) the Bank considers that the obligor is likely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security; and b) the obligor is not past due more than 90 days on any material credit obligation to the Bank.

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

The Bank assesses the ECL for loans and advances to customers and banks, debt and other financial instruments measured at amortized cost and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts.

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating following components: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. In order to ensure appropriate incorporation of credit risk factors in the modelling process, the Bank runs geographic and industry specific models, which take into account a credit cycle adjustment and relevant forward looking information. In accordance with IFRS-9 the Bank applies a three stage approach for impairment, based on changes in credit quality since initial recognition.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. The expected losses are discounted to present value at the end of the reporting period. The Discount Rate represents the original effective interest rate for the financial instrument.

The level of ECL depends on whether the credit risk of the borrower has increased significantly since initial recognition. For Stage 1 instruments loss allowance is based on 12 month ECLs. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness according to the Bank's risk management policies and procedures. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank assumes that the credit risk on an exposure has not increased significantly since initial recognition if the exposure is determined to have low credit risk at the reporting date. Under "low credit risk exposure" the Bank includes the following exposures: (i) exposures to borrowers who have investment grade rating, and (ii) exposures to European Central Bank and the national central banks that are members of the European System of Central Banks.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met: (i) exposure is more than 30 days past due; (ii) exposure is included in internal watch list, unless Stage 1 is duly justified; (iii) exposure is recognized as performing with forborne measures; (iv) according to the initial and subsequent assigned internal rating of the borrower (e.g. decrease in current internal rating by a specified number of notches compared to initial internal rating which varies depending on the initial credit quality of the instrument).

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of portfolios; and (iii) assessment based on external ratings.

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	1.005.616	-	-	-	-	-	-	-	-	1.005.616
Loans and advances to banks	-	-	45.411	-	-	-	-	-	-	45.411
Loans and advances to customers	100.073	-	-	4.738.786	976	1.200	3.803	105.008	-	4.949.845
- of which SME	-	-	-	362.773	-	-	-	-	-	362.773
Securities Financing Transactions	-	-	-	34.275	-	-	-	-	-	34.275
Derivative financial instruments	-	4.326	9.495	653	-	-	-	-	-	14.474
Other credit related liabilities	3.457	-	847	6.146	272	-	-	36.598	47.730	95.050
Total	**1.109.146**	**4.326**	**55.753**	**4.779.860**	**1.248**	**1.200**	**3.803**	**141.607**	**47.730**	**6.144.673**

8.4. Average amount of exposures for 2018 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	1.109.146	1.446.661
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral development banks	-	-
International organisations	-	-
Institutions	4.326	3.401
Corporates	4.779.860	5.307.758
Retail	1.248	1.184
Secured by mortgages on immovable property	1.200	1.541
Exposures in default	3.803	4.380
Items associated with particularly high risk	141.607	138.026.
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	55.753	79.247
Collective investments undertakings	-	-
Equity exposures	-	-
Other exposures	47.730	55.445
Total standardised approach	6.144.673	7.037.643
Total	**6.144.673**	**7.037.643**

8.5. Geographic distribution of exposures, pre credit conversion factors

Credit risk exposures by geographical area as at 31 December 2018

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	987.231	-	-	1.065.745	1.129	1.200	1.987	133.234	36.382	2.226.908
Europe	21.842	4.326	11.661	1.336.118	12	-	-	-	2.518	1.376.477
Russia	-	-	6.933	2.128.813	91	-	1.684	-	8.595	2.146.116
America	-	-	37.159	-	-	-	-	-	-	37.159
Other countries	100.073	-	-	249.184	16	-	132	8.373	235	358.013
Total	**1.109.146**	**4.326**	**55.753**	**4.779.860**	**1.248**	**1.200**	**3.803**	**141.607**	**47.730**	**6.144.673**

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	-	-	-	17.556	-	-	-	-	-	17.556
Manufacturing	-	-	-	64.826	-	-	-	-	-	64.826
- of which SME	-	-	-	15.854	-	-	-	-	-	15.854
Electricity, gas, steam and air conditioning supply	-	-	-	38.218	-	-	-	-	-	38.218
Water supply; sewerage, waste management and remediation activities	-	-	-	1.581	-	-	-	-	-	1.581
- of which SME	-	-	-	1.581	-	-	-	-	-	1581
Construction	-	-	-	185.230	-	-	-	129.728	-	314.958
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	37.644	-	-	39	-	-	37.683
- of which SME	-	-	-	15.928	-	-	-	-	-	15.928

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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	-	-	-	6	-	-	-	-	-	6
Accommodation and food service activities	-	-	-	115.796	-	-	-	-	-	115.796
- of which SME	-	-	-	62.034	-	-	-	-	-	62.034
Information and communication	-	-	-	132	-	-	-	-	-	132
- of which SME	-	-	-	94	-	-	-	-	-	94
Financial and insurance activities	1.009.073	4.326	55.753	4.160.514	-	-	132	10.549	39.314	5.279.662
- of which SME	-	-	-	204.193	-	-	-	-	-	204.193
Real estate activities	-	-	-	72.310	-	-	-	-	-	72.310
- of which SME	-	-	-	41.241	-	-	-	-	-	41.241
Professional, scientific and technical activities	-	-	-	27	-	-	-	-	-	27
Administrative and support service activities	-	-	-	1.303	-	-	-	-	8.347	9.650
- of which SME	-	-	-	1.301	-	-	-	-	-	1.301
Public administration and defence; compulsory social security	100.073	-	-	-	-	-	-	-	-	100.073
Education	-	-	-	18.547	-	-	-	-	-	18.547
- of which SME	-	-	-	18.547	-	-	-	-	-	18.547
Human health and social work activities	-	-	-	-	-	-	-	-	-	-
- of which SME	-	-	-	-	-	-	-	-	-	-
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-
Other service activities	-	-	-	23.307	-	-	-	-	-	23.307
- of which SME	-	-	-	2.000	-	-	-	-	-	2.000
Private Individuals	-	-	-	42.863	1.248	1.200	3.632	1.330	69	50.341
Total	**1.109.146**	**4.326**	**55.753**	**4.779.860**	**1.248**	**1.200**	**3.803**	**141.607**	**47.730**	**6.144.673**

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

Credit risk exposures by residual maturity as at 31 December 2018

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	1.009.073	-	55.448	49.708	419	15	-	6	47.730	1.162.399
More than 1 month and less or equal 2 months	-	-	305	426.911	14	10	-	-	-	427.240
More than 2 months and less or equal 3 months	73	-	-	31.279	14	10	-	7		31.383
More than 3 months and less or equal 6 months	-	-	-	43.806	41	30	-	34	-	43.911
More than 6 months and less or equal 1 year	-	4.326	-	180.547	75	72	259	7.824	-	193.103
More than 1 year	100.000	-	-	4.047.609	685	1.063	1.467	125.363	-	4.276.187
Overdue	-	-	-	-	-	-	2.077	8.373	-	10.450
Maturity undefined	-	-	-	-	-	-	-	-	-	-
Total	**1.109.146**	**4.326**	**55.753**	**4.779.860**	**1.248**	**1.200**	**3.803**	**141.607**	**47.730**	**6.144.673**

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	1.109.146	-	-	-295	-	-	1.108.851
Regional governments or local authorities	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	4.326	-	-	-	-	-	4.326
Corporates	4.779.860	3.803	-2.623	-24.206	2.231	1.251	4.756.834
- of which: SMEs	347.840	-	-	-	-	-	347.840

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Exposure Type	Gross carrying values of Non-Defaulted exposures EUR000	Gross carrying values of 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
Retail	1.248	-	-	-7	-	-	1.241
- of which: SMEs	-	-	-	-	-	-	-
Secured by mortgages on immovable property	1.200	-	-	-6	-	-	1.194
- of which: SMEs	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-
Items associated with particularly high risk	133.234	8.373	-8.373	-53	-	-	133.181
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	55.753	-	-	-	-	-	55.753
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	47.730	-	-	-	-	-	47.730
Total standardised approach	**6.132.497**	**12.176**	**-10.996**	**-24.567**	**-**	**-**	**6.109.110**
Total	**6.132.497**	**12.176**	**-10.996**	**-24.567**	**2.231**	**1.251**	**6.109.110**
- of which: Loans	4.754.354	12.176	-10.996	-24.567	2.231	-	4.730.968
- of which: Debt securities	-	-	-	-	-	-	-
- of which: Off-balance-sheet exposures	126.246	-	-	-	-	-	126.246

*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	Gross carrying values of 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	2.224.921	1.987	-1.847	-18.152	-	-	2.206.909
Europe	1.376.477	-	-	-1.232	2.231	1.251	1.375.245
Russia	2.144.432	1.684	-697	-594	-	-	2.144.825
America	37.159	-	-	-	-	-	37.155
Other countries	349.508	8.505	-8.452	-4.589	-	-	344.972
Total	**6.132.497**	**12.176**	**-10.996.0**	**-24.567**	**2.231**	**1.251**	**6.109.110**

*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	-	-	-	-	-	-	-
Mining and Quarrying	17.556	-	-	(374)	-	-	17.182
Manufacturing	64.826	-	-	(559)	(2.231)	1.251	64.267
Electricity, gas, steam and air conditioning supply	38.218	-	-	(23)	-	-	38.195
Water supply; sewerage, waste management and remediation activities	1.581	-	-	-	-	-	1.581
Construction	314.958	-	-	(11.843)	-	-	303.115
Wholesale and retail trade; repair of motor vehicles and motorcycles	37.644	39	(39)	(42)	-	-	37.602
Transportation and storage	6	-	-	-	-	-	6
Accommodation and food service activities	115.796	-	-	(91)	-	-	115.705
Information and communication	132	-	-	(1)	-	-	131
Financial and insurance activities	5.272.487	7.175	(7.122)	(10.113)	-	-	5.262.427
Real estate activities	72.310	-	-	(1.064)	-	-	71.246
Professional, scientific and technical activities	27	-	-	-	-	-	27
Administrative and support service activities	9.650	-	-	(4)	-	-	9.646
Public administration and defence; compulsory social security	100.073	-	-	(295)	-	-	99.778
Education	18.547	-	-	(16)	-	-	18.531
Human health and social work activities	-	-	-	-	-	-	-
Arts, entertainment and recreation	-	-	-	-	-	-	-
Other service activities	23.307	-	-	(55)	-	-	23.252
Private Individuals	45.379	4.962	(3.835)	(87)	-	-	46.419
Total	**6.132.497**	**12.176**	**(10.996)**	**(24.567)**	**(2.231)**	**1.251**	**6.109.110**

*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	-	-	-	-	-	10.412
Debt securities	-	-	-	-	-	-
Total exposures	**-**	**-**	**-**	**-**	**-**	**10.412**

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	4,801,458	-	54.492	12.176	12.176	12.176	7.497	24.567	1.899	10.996	7.409	1.126	-
Off-balance-sheet exposures	126.246	-	-	-	-	-	-	-	-	-	-	-	-

8.9. Changes in value adjustments and provisions

	Accumulated specific credit risk adjustment EUR000	Accumulated general credit risk adjustment EUR000
Opening balance	**13.074**	**24.123**
Increases due to amounts set aside for estimated loan losses during the period	-	4.486
Decreases due to amounts reversed for estimated loan losses during the period	-	(4.697)
Decreases due to amounts taken against accumulated credit risk adjustments	170	(318)
Transfers between credit risk adjustments	119	1.190
Impact of exchange rate differences	313	(217)
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments (sold during the year)	(2.680)	-
Closing balance	**10.996**	**24.567**
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	-	-

	Gross carrying value defaulted exposures EUR000
Opening balance	**15.306**
Loans and debt securities that have defaulted or impaired since the last reporting period	395
Returned to non-defaulted status	-
Amounts written off	(2.875)
Facilities classified as NPL which were sold	-
Other changes	650
Closing balance	**12.176**

9. Credit Risk Identification and Measurement

9.1. Names of the nominated ECAIs & 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 €1,960 mln, to the Central Bank of Luxembourg €41.7 mln and deferred taxation exposures to the Cyprus Government amounting to €327 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 and arise from the property plant and equipment and collective provisions, 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-	182	182
2	A+ to A-	5.412	5.412
3	BBB+ to BBB-	39.899	39.899
4	BB+ to BB-	14.586	14.586
5	B+ to B-	-	-
6	CCC+ and below	-	-
N/a	Unrated	-	-
		60.079	**60.079**

***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-	44.831	44.831
5	B+ to B-	-	-
6	CCC+ and below	-	-
N/a	Unrated	4.735.029	1.156.288
		4.779.860	**1.201.119**

*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 and advances	1.438.821	3.579.697	-	-	-
Total debt securities	-	-	-	-	-
Total exposures	**1.451.976**	**3.622.524**	**-**	**-**	**-**
- of which defaulted	12.176	-	-	-	-

*for capital adequacy purposes calculation, secured exposures are considered only those exposures that are secured with cash-collateral

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:
Leverage Ratio=(Tier 1 Capital)/(Total Leverage Exposure)

The main factors driving the ratio are the Tier 1 capital amounting to €452 mln and the loan portfolio to customers which amounts to €4.8 billion which represents the 78% 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 2018 the Bank's leverage ratio was 7.3%. You can find more detailed analysis regarding the ratio in the appendix Annex IV.

12. Asset Encumbrance

As at the 31 December 2018 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
Russian Federation	2.146.116	-	-	6.636	-	-	6.636	0.06	0.00%
Cyprus	1.239.677	-	-	60.545	-	-	60.545	0.53	0.00%
Netherlands	1.110.124	-	-	2.081	-	-	2.081	0.02	0.00%
Virgin Islands, British	221.515	-	-	16.686	-	-	16.686	0.14	0.00%
Italy	64.335	-	-	5.147	-	-	5.147	0.04	0.00%
Guernsey	42.819	-	-	3.426	-	-	3.426	0.03	0.00%
Switzerland	38.542	-	-	2.994	-	-	2.994	0.03	0.00%
United States	37.159	-	-	594	-	-	59	0.01	0.00%
Ireland	31.064	-	-	2.485	-	-	2.485	0.02	0.00%
Greece	25.536	-	-	2.043	-	-	2.043	0.02	0.00%
France	21.134	13.327	-	1.474	1.066	-	2.540	0.02	0.00%
Qatar	17.710	-	-	1.416	-	-	1.417	0.01	0.00%
Kazakhstan	17.273	-	-	1.382	-	-	1.382	0.01	0.00%
United Kingdom	10.848	25.292	-	288	2.023	-	2.311	0.02	1.00%
Luxembourg	3.895	-	-	100	-	-	100	0.00	0.00%
United Arab Emirates	1.395	-	-	22	-	-	22	0.00	0.00%
Austria	1.392	2.171	-	27	174	-	201	0.00	0.00%
Belgium	389	-	-	9	-	-	9	0.00	0.00%
Germany	232	17.853	-	5	286	-	291	0.00	0.00%
Israel	7	-	-	-	-	-	-	0.00	0.00%
Ukraine	7	-	-	1	-	-	1	0.00	0.00%
Marshall Islands	7	-	-	1	-	-	1	0.00	0.00%
Bermuda	-	25.477	-	-	2.038	-	2.038	0.02	0.00%
Slovakia	-	7.076	-	-	566	-	566	0.00	1.25%
Czech Republic	-	1.736	-	-	139	-	139	0.00	0.00%
Sweden	-	10.469	-	-	838	-	838	0.01	2.00%
Spain	-	9.062	-	-	725	-	725	0.01	0.00%
Other	27	-	-	-	-	-	-	-	0.00%
	5.031.211	**112.464**	**-**	**107.364**	**7.855**	**-**	**115.219**	**1.00**	

Amount of institution-specific countercyclical buffer

	EUR000
Total risk exposure amount	1.935.347
Institution specific countercyclical buffer rate	0.04%
Institution specific countercyclical buffer requirement	789

14. Liquidity

Liquidity coverage ratio as at 31 December 2018 was 157% with liquidity buffer €1,008 mln and total net liquidity outflows amounting to €643 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 2018, 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	RUB EUR000	EUR EUR000	Other EUR000
+200 b.p.	9.813	(826)	2.424	93
-200 b.p.	(9.813)	826	(2.424)	(93)

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 2018 by applying a 200b.p. change in interest rates, was a decrease of €5 mln (1.1% of the Banks's own funds).

	Increase/(Decrease) in economic value		
	Currencies		
Stress scenario	USD EUR000	RUB EUR000	EUR EUR000
+200 b.p.	(7.620)	(1.314)	3.230
-200 b.p.	7.620	1.314	(3.230)

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 Internal Audit Department.

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 Internal Audit Department, 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 Compliance Department 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 Compliance Department 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 2018 was presented to the Risk and Compliance Departments. The presentation on the proposed approach for the calculation of the 2018 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 2018 comprised of 4 members who were appointed by the MB, of which the Chairperson and the other members were all Independent Directors. During 2018, the RC held two (2) 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 Process (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 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 relevant targets. 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 2018 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 2018 year;
- **"Gross Monthly Base Salary Factor"** - average amount of gross monthly fixed salary paid to Employee during the last three months of 2018;
- **"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 2018. 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 2018;
- **"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 1 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 value.

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 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:

a. Executive Directors and Chief Executive Officer;
b. Members of the Senior Executive Management;
c. Control Functions;
d. Other Material Risk Takers;
e. Heads of Departments/Units who do not fall under any of the above categories;
f. Other Employees.

The number of staff employed by the Bank at 31 December 2018 was 390 (2017: 393).

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

For 2018 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 2018 stood on average at 0% for Executive Directors, Chief Executive Officer and Senior Executive Management; at 19% for Other Risk Takers; at 32% for control functions; at 23% for deposits and transactional banking; at 31% 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 and adherence to the sound risk management.

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	9.770
Control Functions	3.265
Deposits and transactional banking	5.128
Corporate lending & investment banking	4.748
Other	18.372
Total remuneration	**41.283**

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 2018 was EUR 9.770 thousand including a variable compensation of EUR 29 thousand.

   The total remuneration of Other Risk Takers (headcount of 24) for 2018 was EUR 6.588 thousand including a variable compensation of EUR 1.062 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 (EUR 14 thousand) and in the form of non-cash instruments (EUR 15 thousand).

    Other Risk Takers: Variable remuneration was granted in the form of cash (EUR 701 thousand, including severance payments disclosed under point (vi) below) and in the form of non-cash instruments (EUR 361 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 2018, outstanding deferred remuneration amounted to EUR 4.810 thousand (non-vested EUR 3.911 thousand and vested EUR 899 thousand).

    Other Risk Takers: As of 31 December 2018, outstanding deferred remuneration amounted to EUR 835 thousand (non-vested EUR 586 thousand and vested EUR 249 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 2018 was EUR 18 thousand. Deferred remuneration paid out during 2018 for the previous years amounted to EUR 1.395 thousand. There were no amounts reduced through performance adjustments.

    Other Risk Takers: Deferred remuneration awarded for the year 2018 was EUR 289 thousand. Deferred remuneration paid out during 2018 for the previous years amounted to EUR 356 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 there were no new sign-on payments. Severance payments of EUR 340 thousand were made to 3 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 340 EUR thousand were awarded to 3 beneficiaries (the highest award to a single person being EUR 229 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 2018 amounted to 4 employees, with 1 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 EUR2.0 million to EUR2.5 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	255.770
3	Accumulated other comprehensive income (and other reserves)	60.541
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	455.382
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(112)
8	Intangible assets (net of related tax liability) (negative amount)	(3.243)
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)	-

Continued on next page.

		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)	(3.355)
29	Common Equity Tier 1 (CET1) capital	452.027
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)	452.027

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	7.465
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	7.465

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	-

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		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	7.465
59	Total capital (TC = T1 + T2)	459.492
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	1.935.347
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	23.4%
62	Tier 1 (as a percentage of total risk exposure amount)	23.4%
63	Total capital (as a percentage of total risk exposure amount)	23.7%
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)	1.875%
65	- of which: capital conservation buffer requirement	1.875%
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)	13.48%
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)	-

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		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	
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	Solo
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

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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	€ 7.4 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

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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)	Tier 1
36	Non-compliant transitioned features	N/A

Annex IV

CRR Leverage Ratio - Disclosure Template	
Reference date	31/12/2018
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	6.087.888
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	9.462
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)	85.777
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	24.749
8	**Total leverage ratio exposure**	**6.207.876**

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)	6.069.994
2	(Asset amounts deducted in determining Tier 1 capital)	(3.355)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	6.066.639
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	5.012
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	9.462
EU-5a	Exposure determined under Original Exposure Method	-

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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)**	**14.474**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	34.275
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)**	**34.275**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	127.393
18	(Adjustments for conversion to credit equivalent amounts)	(41.616)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**85.777**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on 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 and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**452.027**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**6.207.876**
Leverage ratio		
22	**Leverage ratio**	**7.3%**
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:	6.069.994
EU-2	Trading book exposures	112.464
EU-3	Banking book exposures, of which:	5.957.530
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	1.109.146
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	44.584
EU-8	Secured by mortgages of immovable properties	1.200
EU-9	Retail exposures	976
EU-10	Corporate	4.753.014
EU-11	Exposures in default	1.180
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	47.430

Annex V

Liquidity Coverage Ratio Disclosure Template

	Scope of consolidation (solo)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	Currency and units	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000
	Quarter ending	31 March 2018	31 March 2018	30 June 2018	30 June 2018	30 September 2018	30 September 2018	31 December 2018	31 December 2018
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	1.596.708	-	1.710.455	-	1.707.989	-	1.568.842
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	366.845	213.330	371.211	171.841	371.699	125.262	339.653	66.410
3	Stable deposits	10.614	531	10.407	520	10.502	525	10.136	507
4	Less stable deposits	179.290	35.858	236.853	47.371	295.577	59.115	329.517	65.903
5	Unsecured wholesale funding	1.436.814	1.209.964	1.497.587	1.258.561	1.416.157	1.184.171	1.289.640	1.073.448
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	1.428.966	1.202.116	1.485.227	1.246.201	1.402.036	1.170.050	1.275.591	1.059.399
8	Unsecured debt	7.848	7.848	12.360	12.360	14.121	14.121	14.049	14.049
9	Secured wholesale funding	-	167	-	167	-	167	-	-
10	Additional requirements	114.117	42.320	114.752	43.814	111.009	40.506	106.229	38.268
11	Outflows related to derivative exposures and other collateral requirements	14.447	14.447	15.858	15.858	15.753	15.753	13.914	13.914
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	99.670	27.873	98.895	27.956	95.255	24.753	92.315	24.354
14	Other contractual funding obligations	96.496	96.496	89.026	89.026	76.820	76.820	74.084	74.084
15	Other contingent funding obligations	2.667	2.667	2.584	2.584	2.453	2.453	2.128	2.128
16	**Total cash outflows**	**-**	**1.564.943**	**-**	**1.565.992**	**-**	**1.429.378**	**-**	**1.254.338**

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	Scope of consolidation (solo)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	Currency and units	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000
	Quarter ending	31 March 2018	31 March 2018	30 June 2018	30 June 2018	30 September 2018	30 September 2018	31 December 2018	31 December 2018
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
Cash-inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	432.044	425.477	380.588	373.635	338.786	332.225	282.943	277.601
19	Other cash inflows	21.640	21.640	26.433	26.433	24.936	24.936	22.379	22.379
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**	**453.684**	**447.118**	**407.022**	**400.068**	**363.722**	**357.161**	**305.322**	**299.979**
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	453.684	447.118	407.022	400.068	363.722	357.161	305.322	299.979
Total adjusted value									
21	**Liquidity buffer**	**-**	**1.596.708**	**-**	**1.710.455**	**-**	**1.707.989**	**-**	**1.568.842**
22	**Total net cash outflows**	**-**	**1.117.825**	**-**	**1.165.924**	**-**	**1.072.217**	**-**	**954.359**
23	**Liquidity coverage ratio (%)**	**-**	**144%**	**-**	**148%**	**-**	**163%**	**-**	**166%**

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
			2017 EUR000	2018 EUR000	2018 EUR000
	1	Credit risk (excluding CCR)	1.306.623	1..307.343	104.589
Article 438(c)(d)	2	of which the standardised approach	1.306.623	1..307.343	104.589
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	198.641	69.480	5.558
Article 438(c)(d)	7	of which mark to market	40.602	13.405	1.072
Article 438(c)(d)	8	of which original exposure	114796	34.275	2.742
	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	21.800	1.744
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	121.621	9.693
	20	of which the standardised approach	-	-	-
	21	of which IMA	-	-	-
Article 438(e)	22	Large exposures	-	-	-
Article 438(f)	23	Operational risk	542.750	437.363	34.989
	24	of which basic indicator approach	-	-	-
	25	of which standardised approach	542.750	437.363	34.989
	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**	**1.935.347**	**154.829**

Annex VII

Exposure classes	Exposure before CCF and CRM		Exposure post CCF and CRM		Risk Weighted Assets	
	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	1.109.146	-	1.109.146	-	8.645	1%
Regional govern or local authorities	-	-	-	-	-	0%
Public sector entities	-	-	-	-	-	0%
Multilateral development banks	-	-	-	-	-	0%
International organisations	-	-	-	-	-	0%
Institutions	4.326	-	4.326	-	4.326	0%
Corporates	4.730.484	49.376	1.150.787	21.785	1.169.462	100%
Retail	976	272	976	20	747	75%
Secured by mortgages on immovable property	1.200	-	1.200	-	420	35%
Exposures in default	3.803	-	1.180	-	1.180	100%
Exposures associated with particularly high risk	65.009	76.598	56.636	20.000	114.954	150%
Covered bonds	-	-	-	-	-	0%
Institutions and corporates with a short-term credit assessment	54.906	847	54.906	847	19.219	34%
Collective investment undertakings	-	-	-	-	-	0%
Equity	-	-	-	-	-	0%
Other items	47.430	300	47.430	300	36.070	76%
Total	**6.017.280**	**127.393**	**2.426.587**	**42.952**	**1.355.023**	**55%**

Name of the Entity	Method of accounting consolidation	Method of regulatory consolidation				Description of Entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
RCB Trustees (Cyprus) Limited	Full Consolidation			X		Trust
RCB Credit System LTD	Full Consolidation			X		Dormant
RCB Finance LTD	Full Consolidation			X		Dormant
LSA Finance DAC	Full Consolidation			X		Dormant

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