The Cyprus Development Bank Group

PILLAR 3 DISCLOSURES
AS AT 31 DECEMBER 2017

IN ACCORDANCE WITH PART 8 OF EU REGULATION No 575/2013 ON
PRUDENTIAL REQUIREMENTS FOR CREDIT INSTITUTIONS AND INVESTMENT FIRMS

24 JULY 2018

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1. INTRODUCTION

Table 1 - Key Metrics as at 31 December 2017

Available Capital	**€'000**	**Leverage Ratio**	**€'000**
Common equity tier 1 ('CET1') capital	41.503	Total Leverage ratio exposure	572.068
Additional tier 1 ('AT1') capital	5.000	Leverage ratio %	8,13%
Total regulatory capital	46.503	**Liquidity Coverage Ratio ('LCR')**	
Risk-weighted assets ('RWAs')		Total high-quality liquid assets	130.827
Total RWAs	325.471	Total net cash outflow	31.425
Capital Ratios %		LCR ratio %	416%
CET1	12,75%		
Total Tier 1	14,29%		
Total available capital	14,29%		
Minimum required capital (Pillar 1 + Pillar 2)	14,45%		

1.1 Corporate Information

The Cyprus Development Bank Public Company Limited (the "Company" or the "Group") was incorporated in the Republic of Cyprus in 1963. The Company's business name is "cdbbank" and is the parent company of the Cyprus Development Bank Group.
The principal activities of the Group comprise commercial and investment banking, investment portfolio management, brokerage, and financial advisory services, as well as disposal of property predominantly acquired in exchange for debt.
Further details on the Company's subsidiaries appear in notes 20 and 21 of the Annual Financial Report 2017. All subsidiaries are subject to full consolidation for both accounting and regulatory purposes, and all figures disclosed in the present report are on a Group basis.
The Company's shares are not listed for trading on an exchange.

1.2 Pillar 3 Regulatory Framework

The Company is supervised on a consolidated basis by the Central Bank of Cyprus, which sets capital requirements for the Group as a whole. The Group's two regulated subsidiaries, Global Capital Ltd and JSC cdbbank, are in addition subject to individual capital requirements set by their respective regulators the Cyprus Securities and Exchange Commission and the Central Bank of the Russian Federation.
At a consolidated group level, capital for prudential regulatory reporting purposes is calculated based on the Basel III framework of the Basel Committee ('Basel') as implemented by the European Union ('EU') in the amended Capital Requirements Directive and Regulation ('CRD IV').
The Basel Committee's framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.
Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

1.3 Basis for Disclosures

Pillar 3 disclosures are governed by Part 8 of the Capital Requirements Regulation within CRD IV and the European Banking Authority's ('EBA') final standards on revised Pillar 3 disclosures issued in December 2016. The Chief Risk Officer has attested in writing that the present document has been prepared in accordance with the said regulation and standards, and Internal Audit has carried out an independent review of its accuracy and completeness prior to its approval by executive management and the Management Body.

Unless otherwise stated all figures in the present report are expressed in thousands of Euros and relate to 31st December 2017. A summary of key ratios and figures reflected throughout the Pillar 3 disclosures at 31st December 2017 appear in Table 1 above.
The present document is published on an annual basis on the Company's website http://www.cdb.com.cy. Pillar 3 requirements may be met by inclusion in other disclosure media. Where this approach is adopted, references are provided to the relevant pages of the Annual Financial Report 2017, which is also published on the Company's website. The reader is referred in particular to **Note 36** of the Annual Financial Report 2017, which provides additional information on financial risk management, as well as **Note 40** on the Operating Environment.

2. MANAGEMENT BODY APPOINTMENTS

2.1 Recruitment

Evaluation of candidates for appointment to the Management Body ('MB') is carried out by the Nomination and Remuneration Committee ('NRC') of the MB by reference to fitness and probity regulatory requirements as reflected in the Company's relevant policy, and the standards and needs of the MB in terms of skills and competencies. More specifically, factors considered by the NRC include:

- character integrity and reputation
- knowledge of financial matters
- banking industry experience
- sound business judgement
- complementarity with the skillset of existing MB members

The NRC is also responsible for making recommendations to the MB for re-election of incumbent directors. When doing so the NRC pays due regard to the said directors' evaluation of performance, including the directors' attendance record, participation in MB activities and overall contribution to the functioning of the MB and its sub-committees.

The MB consisted of six non-executive and two executive Directors as at 31st December 2017, as shown on page 3 of the Annual Financial Report 2017. The current composition of the MB is disclosed on the Company's website under https://www.cdb.com.cy/leadership.

2.2 Diversity

The Company acknowledges that diverse membership of the MB in terms of age, gender, geographic origin and educational / professional background contributes to the better functioning of the MB. Consequently, the need for diversity is considered when selecting new members of the MB and in evaluating the optimum composition of the MB. Membership of the MB as at 31st December 2017 included one female director, representing 12% of the total. No formal female representation or other diversity targets have been set by the Company.

2.3 Other Directorships Held

In evaluating candidates for appointment to the MB as well as performance of existing members, the NRC considers among others whether they can devote sufficient time to the affairs of the Company. This in turn requires assessment of whether or not the number of other directorships held may present an obstacle.

The following table provides the number of directorships held by members of the MB in entities other than the Group as at 31st December 2017. Based on the Central Bank of Cyprus 2014 Directive on the ''*Assessment of the Fitness and Probity of Members of the Management Body and Managers of Authorized Credit Institutions*'' the table below excludes Directorships in organizations which do not pursue predominantly commercial objectives, while Directorships in companies belonging to the same group are treated as a single directorship.

Table 2 - Number of Directorships Held

Name of Director	Position within the Company	Directorships Executive	Directorships Non-Executive
Kyriacos Christofi	Chairman Non-Executive	-	2
Neoclis Nicolaou	Vice Chairman Non-Executive	-	5
Andreas Loizou	Non-Executive Director	-	11
George Loizou	Non-Executive Director	-	-
George Pavlides	Non-Executive Director	-	2
Menelaos Shiacolas	Non-Executive Director	1	3
Costas Argyrides	Executive Director	-	-
Andri Georghiou	Executive Director	-	-

The NRC having taken into account the nature, scale, and complexity of the activities of the Group considers that the Directorships disclosed above do not compromise the effective functioning of the MB.

3 RISK MANAGEMENT

The Group, as a financial organization, is exposed to risks, the most important of which are credit, market, operational, and liquidity risk.

The Group implements internal mechanisms for continuous and systematic monitoring of the above risks in order to avoid excessive concentration of such risks.

The Group establishes risk management policies to identify and analyze the risks faced by the Group, to set appropriate risk limits and control procedures, and to continuously monitor such risks as well as the Group's adherence to limits and controls. Risk management policies are reviewed regularly to reflect changes in market conditions, products and services rendered.

3.1 Risk Management Framework

The Management Body ("MB") has ultimate responsibility for the risk appetite of the Group and the monitoring of risks on a regular basis. The MB has appointed a sub-committee, the Risk Committee ("RC"), with the following main responsibilities:

- Form the Group's policy in respect of measuring and monitoring risks;
- Develop an internal risk management framework for monitoring risk strategy implementation;
- Systematically assess key indicators relating to credit risk, market risk, liquidity risk, and operational risk;
- Ensure that the Group has sufficient capital and reserves to support the risks undertaken.

The RC meets regularly, at least on a quarterly basis. In 2017, the RC met eleven times. The RC receives formal and informal communication from the Bank's Risk Management Unit and, where appropriate, has access to external expert advice, particularly in relation to strategic transactions and issues.

The Group also operates an Asset and Liability Management Committee ("ALCO") whose main responsibility is the determination and control of the mix and structure of the Group's assets and liabilities by reference to the risks and in relation to their performance. At its monthly meeting, ALCO reviews risk-related reports on the Group's liquidity position and exposure to market risks.

Other Board Committees that have been established by the Company and conform to the relevant principles of the Central Bank of Cyprus' Governance Directive are the Audit Committee and the Nomination and Remuneration Committee. The Company also has a Board Credit Committee whose role is to oversee the Company's credit policies and is the Group's ultimate credit approving authority, except for credit facilities to directors and shareholders, which are approved by the Management Body.

In addition, the Group has established a Risk Management Unit ("RMU") which is responsible for assessing and monitoring all risks of the Group. The RMU is also responsible for the Internal Capital Adequacy Assessment Process ("ICAAP") and for the Internal Liquidity Adequacy Assessment Process ("ILAAP").
The results and views of the RMU are discussed with Management and the RC to form a final position on the adequacy of the Group's capital.
The RMU reports to the Chief Executive Officer as well as directly to the RC. The RMU is administratively independent of all operational departments / units of the Company.

3.2 Information Flow on Risk to the Management Body

The information flow on risk to the MB is achieved, inter alia, through:

- The reports prepared by the Risk Management Unit (including the annual report);
- The ICAAP and the ILAAP reports prepared by the Risk Management Unit;
- Monthly reports submitted to the MB on the major problematic cases under Banking and under Asset Recoveries;
- The reports prepared by the Internal Auditor (including the annual report);
- The reports prepared by the Compliance Officer (including the annual report);
- The Money Laundering Compliance Officer's Annual Report;
- The Money Laundering Compliance Officer's Report on the risks of money laundering and terrorist financing that the Bank is exposed to and the measures taken for their management and mitigation.

3.3 Declaration on Adequacy of Risk Management Arrangements

The MB is ultimately responsible for the risk management framework of the Group. The MB is required to make an annual declaration on the adequacy of the Group's risk management arrangements and to provide assurances that the risk management systems in place are adequate in relation to the Group's strategy and risk profile. Accordingly, the MB declares as follows:

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

The MB considers that the Group has in place adequate systems and controls relative to the Group's risk profile and business strategy and an appropriate array of assurance mechanisms, adequately resourced and skilled, to minimize the risk of loss.

3.4 Risk Appetite

Risk appetite is the amount and type of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Risk bearing capacity on the other hand is defined as the ability to absorb losses without unacceptable damage to earnings and capital levels, to the current business plan objectives, as well as to the Company's overall reputation.

Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, liquidity, conduct, reputational and compliance risk. The Risk Appetite Statement is the formal articulation of the Company's willingness to take on certain risks and avoid or minimise other risks in the pursuit of its strategic objectives.

The Company mainly expresses its risk appetite through its policies, procedures, internal controls, mitigation techniques and via appropriate limits for all the material risks inherent in the Company's activities. Consequently, an important objective for the Company is to continuously upgrade its policies, procedures, internal controls and mitigation techniques in order to better manage risks in the future.

In terms of operational issues, the Company has a low appetite for risk. The Company makes resources available to control operational risks to acceptable levels. The Company recognises that it is not possible to eliminate all of the risks inherent in its activities as the cost becomes excessively high when compared to the corresponding benefit. Acceptance of some risk is often necessary in order to successfully operate in the competitive local banking environment.

Specific attention is given to those risks that are not quantifiable, such as reputational risk, and therefore their effective assessment relies on qualitative criteria. The Company has a zero tolerance for any risks which may damage its reputation and to any act of bribery, corruption or fraud.

The Company's strategic priorities include the improvement of asset quality and effective management of non-performing exposures, increasing non-interest fee-based income, maintaining the strong liquidity position, as well as preserving the capital adequacy of the Company by internally generating capital through profitability and other means. The Company aims to have in place robust risk management policies and practices so as to ensure the level of risk it faces is consistent with the Company's risk appetite and corporate objectives. The Company manages risks to maximise its long-term results by ensuring the integrity of its assets and the quality of its earnings.

4. OWN FUNDS AND LEVERAGE

4.1 Capital Management

The Group's approach to capital management aims at supporting business objectives while observing regulatory requirements. Additional information on capital management appears in note 36.5 to the Annual Financial Report 2017.

The Group's capital adequacy ratios as at 31 December 2017 were as follows:

- Common Equity Tier 1 ratio : 12,75%
- Tier 1 ratio : 14,29%
- Capital Adequacy Ratio : 14,29%

The Common Equity Tier 1 ("CET1") ratio is the CET1 capital of the Group expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.

The Tier 1 ("T1") ratio is the T1 capital of the Group expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.

The Total Capital ratio ("TC") is the own funds of the Group expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.

The Total Capital ratio of 14,29% for the Group as at 31 December 2017, was marginally below the 14,45% minimum required by the Central Bank of Cyprus. The Management Body and Management are taking measures to strengthen the capital base, consisting of both internal measures as well as of additional contributions from shareholders and others, so as to observe minimum regulatory capital requirements.

4.2 Own Funds

The Group's regulatory capital comprises Common Equity Tier 1 (CET1) as well as Additional Tier 1 (AT1) items. The Group's CET1 capital includes ordinary share capital, share premium, reserves, non-redeemable capital account, and minority interests. The Bank deducts from its CET1 capital its intangible assets (software and goodwill). AT1 capital relates to a perpetual subordinated note. The Company does not have any Tier 2 (T2) capital. Information on share capital, and the non-redeemable capital account appears in note 31 of the Annual Financial Report 2017, while for the perpetual note in note 30. In addition, the main features of CET1 and AT1 capital instruments are summarized in the table below.

Table 3 - Description of main features of CET1 and AT1 Capital instruments

	CET1	**AT1**
Issuer	The Cyprus Development Bank	The Cyprus Development Bank
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier)	n/a	n/a
Governing law(s) of the instrument	Cyprus Law	Cyprus Law
Regulatory treatment		
Trasitional CRR rules	CET1	AT1
Post-trasitional CRR rules	CET1	AT1
Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated
Instrument type	Share Capital	Unsecured Subordinated Note
Amount recognized in regulatory capital	EUR 35,2mln	EUR 5,0 mln
Nominal amount of instrument	12.961.354 – Class A 13.000.000 – Class B	5,000,000
Issue price	EUR 1,71 for Class A EUR 1,00 for Class B	€1,00
Redemption price	n/a	€1,00
Accounting classification	Shareholders equity	Loan capital
Date of conversion of existing shares and issuance of new shares	5 November 2014	n/a
Original date of issuance	n/a	3 August 2017
Perpetual or dated	Perpetual	Perpetual
Original maturity date	No maturity	No maturity
Issuer call subject to prior supervisory approval	n/a	Yes
Optional call date, contingent call dates and redemption amount	n/a	5th anniversary
Subsequent call dates, if applicable	n/a	each interest payment date
Coupons / dividends		
Fixed or floating dividend/coupon	Floating	Fixed
Coupon rate and any related index	n/a	13,75% p.a. payable semi-annually
Existence of a dividend stopper	Yes	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	n/a	Fully or partially discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	n/a	Fully or partially discretionary
Existence of step up or other incentive to redeem	n/a	No
Non-cumulative or cumulative	n/a	Non-cumulative
Convertible or non-convertible	n/a	Non-convertible
Write-down features	No	Yes, partial temporary write-down
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a	Bank's creditors
Non-compliant transitional features	No	No

The calculation of regulatory own funds of the Group as at 31st December 2017 was as follows:

Table 4 – Regulatory Own Funds Calculation

Original own funds (Tier 1 Capital)	
Common Equity Tier 1 Capital (CET1 Capital)	
Share capital	35,164
Share premium	11,211
Retained earnings	-7,414
Accumulated other comprehensive income	-986
Other Reserves	90
Minority Interest	69
(-) Other Intangible assets	-631
Capital account	4,000
Other transitional adjustments to CET1 Capital	0
Total Common Equity Tier 1 Capital (CET1 Capital)	**41,503**
Additional Tier 1 Capital (AT1 Capital)	5,000
Total Original own funds (Tier 1 Capital)	**46,503**
Additional own funds (Tier 2 Capital)	0
Total Tier 2 Capital	**0**
Total own funds (Tier 1 Capital + Tier 2 Capital)	**46,503**

The following table provides a reconciliation of own funds between the consolidated balance sheet, as presented in the Consolidated Financial Statements of the Company, and the financial position of the Group prepared for regulatory purposes.

Table 5 -Reconciliation of balance sheet with own funds calculations

Total Equity per Group consolidated financial statements	**42.250**
(-) Intangible assets	(631)
(-) Transitional adjustments for unrealized gains of assets and liabilities measured at fair value	-
(-) Transitional adjustments on minority interests	(116)
Total Common Equity Tier 1	**41.503**
Additional Tier 1	**5.000**
Total Tier 1	**46.503**
Tier 2	-
Total Tier 2	**-**
Total Own funds	**46.503**

The table below discloses the components of regulatory capital as at 31st December 2017 during the transitional and fully phased-in period. This disclosure has been prepared using the format set out in Annex VI of the "Commission Implementing Regulation (EU) No 1423/2013", which lays down implementing technical standards with regards to disclosure of own funds requirements, for institutions according to the Regulation.

Table 6 – Transitional and Fully Phased-in Components of Own Funds

Common Equity Tier 1 capital: instruments and reserves	**Transitional Definition €'000**	**Fully Phased in Definition €'000**
Capital instruments and the related share premium accounts	46.375	46.375
Retained earnings	-3.356	-3.356
Accumulated other comprehensive income (and other reserves)	-896	-896
Funds for general banking risk	4.000	4.000
Minority interest (amount allowed in consolidated CET1)	69	40
Independently reviewed interim profits net of any foreseeable charge or dividend		
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**46.192**	**46.163**
Intangible assets (net of related tax liability) (negative amount)	-631	-631
Losses for the current financial year (negative amount)	-4.058	-4.058
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre -CRR treatment		
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-4.689**	**-4.689**
Common Equity Tier 1 (CET1) capital	**41.503**	**41.474**
Additional Tier 1 (AT1) capital: instruments		
Additional Tier 1 (AT1) capital before regulatory adjustments	5.000	5.000
Additional Tier 1 (AT1) capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
Additional Tier 1 (AT1) capital	**5.000**	**5.000**
Tier 1 capital (T1 = CET1 + AT1)	**46.503**	**46.474**
Tier 2 (T2) capital: instruments and provisions		
Capital instruments and the related share premium accounts	-	-
Credit risk adjustments	-	-
Tier 2 (T2) capital before regulatory adjustments	-	-
Tier 2 (T2) capital: regulatory adjustments		
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre CRR	-	-
Of which: possible filter for unrealised gains	-	-
Total regulatory adjustments to Tier 2 (T2)	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**46.503**	**46.474**
Total risk weighted assets	**325.459**	**325.459**
Capital ratios		
Common Equity Tier 1 (as a % of risk exposure amount)	**12.75%**	**12.74%**
Tier 1 (as a % of risk exposure amount)	**14.29%**	**14.28%**
Total capital (as a % of risk exposures amount)	**14.29%**	**14.28%**

4.3 Countercyclical Capital Buffer

In accordance with Article 130(1) of the CRD IV Directive, institutions are required to maintain an institution-specific countercyclical capital buffer. In relation to this buffer, the European Commission's Delegated Regulation (EU) 2015/1555 further requires institutions to disclose the key elements of the calculation of their countercyclical capital buffer, in order to ensure transparency and comparability across institutions in the EU.

To this end, the table below provides information on the geographical distribution of credit exposures relevant for the calculation of the Company's countercyclical capital buffer as at 31 December 2017. Exposures to foreign countries which did not exceed 10% of the total, are included under the "Other" category, grouped based on the level of the countercyclical buffer rate.

Table 7 - *Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer*

Breakdown by country (€000)	General Credit Exposures	Own Funds Requirements				Own Funds requirement Weights	Counter-cyclical Buffer Rate
	Exposure value for SA	Of which: General Credit Exposures	Of which: Trading Book Exposures	Of which: Securitisation Exposures	Total		
	010	070	080	090	100	110	120
Cyprus	400.355	21.175	-	-	21.175	97.47%	0%
Other (Norway)	1.044	42	-	-	42	0.19%	2%
Other (Various)	12.730	508	-	-	508	2.34%	0%
Total	**414.129**	**21.725**	**-**	**-**	**21.725**	**100%**	

The following table presents the amount of institution-specific countercyclical capital buffer of the Company, as at 31 December 2017.

Table 8 - Amount of institution-specific countercyclical capital buffer

Amount of institution-specific countercyclical capital buffer	
Total Risk Exposure Amount, in €'000	414,129
Institution specific countercyclical buffer rate %	0,0039%
Institution specific countercyclical buffer requirement in €'000	12,58

4.4 Pillar 1 Capital Requirements

The Group follows the Standardized Approach ("STA") for the calculation of Credit Risk and Market Risk Pillar 1 capital requirements and the Basic Indicator Approach ("BIA") for Operational Risk.

The Pillar 1 capital required to be maintained by the Group as at 31 December 2017 was as follows:

Table 9 - Pillar 1 Minimum Capital Requirements

Risk type	Pillar 1 Capital Requirements €000
Credit risk	24.074
Market risk	0
Operational risk	1.963
Credit Valuation Adjustment (CVA) risk	0
Total capital requirements	**26.037**

4.5 Pillar 2 and ICAAP

The Group has adopted the "Pillar 1 Plus" approach for its internal capital adequacy assessment process (ICAAP). In accordance with this approach, the Group quantifies the capital requirements, over and above the Pillar 1 minimum requirement. The allocation of capital for Pillar 2 purposes takes into consideration the risks that have been assessed internally as "material", through the risk assessment as well as the stress tests performed. All risks falling outside the Group's risk appetite are considered to be threats to the Group and are covered with additional capital or additional controls. No Pillar 2 add-on capital resulted from the 2016 ICAAP. The Group is in the process of preparing its 2017 ICAAP.

In February 2017, the Central Bank of Cyprus, following the Supervisory Review and Evaluation Process (SREP) for 2016 imposed a Pillar 2 additional funds requirement of 5,20% to be maintained at all times in the form of CET1 capital. This is over and above the Pillar 1 minimum required of 9,25% bringing the total required capital ratio to 14,45%.

4.6 Leverage Ratio

The Basel III framework introduced a simple, transparent, non-risk based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements.

The Leverage Ratio is defined as the capital measure (i.e. the Group's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10th October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regards to the Leverage Ratio. It is noted that the ratio will form part of Pillar 1 minimum capital requirements on 1 January 2018. The minimum requirement for the purposes of the Leverage Ratio is currently set at 3%.

The Group calculates its Leverage Ratio as at the end of each quarter. At the end of 2016 the Leverage ratio was 7,26%. During 2017 the Leverage Ratio ranged between 7,64% at 31st March 2017 and 8,13% at 31st December 2017. The increase observed in the Leverage Ratio is due to the €5 mln injection in Additional Tier 1 capital which contributed positively to the numerator of the ratio compared to an approx. €30 mln increase in the exposure measure affecting the denominator.

The Bank monitors its Leverage Ratio at least on a quarterly basis and all appropriate measures are taken where deemed necessary.
The table below provides a reconciliation of accounting assets and leverage ratio exposures.

Table 10 - Reconciliation of Accounting Assets and Leverage Ratio Exposures

31 December 2017 in €'000		Applicable Amounts
1	Total assets as per published financial statements	544.022
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognized 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	-
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	28.366
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	-320
8	**Total leverage ratio exposure**	**572.068**

The table below provides a breakdown of total leverage ratio exposures by exposure type.

Table 11 - Leverage Ratio Common Disclosure

31 December 2017 in €'000		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)	544.333
2	(Asset amounts deducted in determining Tier 1 capital)	-631
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**543.702**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	-
11	**Total derivative exposures**	**-**
Securities financing transaction exposures		
16	**Total securities financing transaction exposures**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	63.428
18	(Adjustments for conversion to credit equivalent amounts)	-35.062
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**28.366**
Capital and total exposure		
20	**Tier 1 capital**	**46.503**
21	**Total leverage ratio exposures**	**572.068**
Leverage ratio		
22	**Leverage ratio (transitional definition)**	**8.13%**

The following table provides a breakdown of total on-balance sheet exposures (excluding derivatives, securities financing transactions, and exempted exposures) by asset class.

Table 12 – On-balance Sheet Exposures by Asset Class

31st December 2017	CRR leverage ratio exposures €000s
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**543.702**
Trading book exposures	
Banking book exposures, of which:	543.702
Covered bonds	
Exposures treated as sovereigns	*138.411*
Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	
Institutions	*127.445*
Secured by mortgages of immovable properties	*50.625*
Retail exposures	*22.124*
Corporate	*107.306*
Exposures in default	*47.991*
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	*49.800*

5. CREDIT RISK

5.1 Definition of Credit Risk

In the ordinary course of business the Group is exposed to Credit risk. Credit risk emanates in the most part from the potential inability of clients to repay their loans and other credit facilities and the non–compliance with their contractual obligations. Credit risk is monitored through various control mechanisms in order to prevent undue risk concentration and to price facilities and products on a risk-adjusted basis.

5.2 Credit Risk Management Procedures

The Group establishes the financing policies and sets limits on credit exposures to clients and ensures that these policies and limits, as well as the related credit sanctioning procedures and controls, are complied with in the conduct of the Group's operations. The Group takes collateral for the loans and credit facilities it grants to clients. Credit risk from connected clients' accounts is monitored on an aggregated basis.

5.3 Measurement of Credit Risk and Adoption of Credit Limits

The creditworthiness of most clients is assessed using a credit rating system which takes into account the clients' financial position and various qualitative criteria, such as the quality of management and the market in which the client operates. The client's rating is then calculated, thus assisting in setting pricing according to the risk undertaken.

The Group sets limits for the composition of the portfolio of loans and advances and monitors compliance with them. The Credit risk exposure of the Group is diversified across the various sectors of the economy. The terms of loans and advances may be renegotiated due to deterioration in the client's financial position. The Group implements a restructuring policy in order to maximise collection opportunities and minimize the risk of default. The revised terms usually include extending maturity, changing timing of interest and principal payments and amendment of terms of loan covenants.

Internal Audit undertakes audits of the Group's portfolio of loans and advances and of the Group's credit processes.

The Group assesses the Credit risk relating to investments in liquid funds, mainly debt securities and placements with banks, and recommendations for counterparty and country limits are submitted to the Assets and Liabilities Committee (ALCO) for approval.

The Group also determines credit limits for countries, banking institutions, and settlement limits with counterparties in accordance with the credit ratings of the countries and the counterparties by international external rating agencies. Changes in the credit ratings of countries and counterparties are monitored on a regular basis by the RMU and approved by the ALCO and the RC of the MB.

5.4 Standardised Approach for Credit Risk

The minimum capital requirement for Credit risk is calculated by exposure using a factor of 8% as defined by the Regulation. The following table shows the risk-weighted group exposure amounts and the corresponding minimum capital requirements as at 31st December 2017, for each of the exposure classes, based on the Standardized Approach.

Table 13 - **Credit *Risk-weighted Assets and Capital***

	Risk weighted amounts €000	Minimum capital requirements €000
Exposure class		
Central governments or central banks	577	46
Institutions	28.778	2.302
Corporate	117.411	9.393
Retail	16.710	1.337
Secured by mortgages on immovable property	21.716	1.737
Exposures in default	49.574	3.966
Items associated with particular high risk	52.989	4.239
Equity	763	61
Other Items	12.403	992
Total	**300.921**	**24.074**

5.5 Credit risk mitigation

The Group implements various policies and methods in order to achieve effective mitigation of Credit risk. The most important methods are listed below:

- Setting of limits for officers and credit committees;
- Credit ratings for clients linked to approval criteria;
- Setting of procedures relating to taking collaterals;
- Issuing circulars and guidelines concerning the granting of credit;
- Determining which borrower types and sectors of the economy the Group is not willing to finance.

Use of External Credit Assessments Institutions' (ECAI) Credit Assessments for the determination of Risk Weights

The Group uses external credit ratings from Moody's, Standard & Poor's and Fitch. These ratings are used for all relevant exposure classes. In the cases where the three credit ratings differ, the Company takes the two credit assessments generating the two lowest risk weights and then it uses the credit assessment that corresponds to the lower risk weight.

For debt securities not included in the trading book, the Group applies the following priority with regards to the credit assessment used:

1. Issue/Exposure credit assessment
2. Issuer/Counterparty credit assessment.

The Group employs the EBA credit step mapping to map long-term and short-term credit assessments to credit quality steps.

The table below presents exposure values before and after credit risk mitigation, corresponding to credit quality steps. The values before credit risk mitigation represent the initial exposure value net of value adjustments. The values after credit risk mitigation represent exposures taking into account the eligible financial collateral funded and unfunded credit protection.

Table 14 - Breakdown of Exposure Values by Credit Quality Step

Breakdown by Credit Quality Step (CQS)	Exposure values before credit risk mitigation and net of provisions €000	Exposure values after credit risk mitigation and net of provisions €000
CQS 1	12.757	12.757
CQS 2	53.743	53.743
CQS 3	13.183	13.183
CQS 4	190.157	190.157
CQS 5	1.120	1.120
CQS 6	0	0
Unrated/Not Applicable	335.861	324.661
Total	**606.821**	**595.621**

The main collateral types for the commercial and corporate sectors are mortgages in commercial real estate. For the retail sector, in addition to mortgages in commercial real estate, are mortgages in residential real estate. Government and bank guarantees from eligible guarantors are also obtained. In addition, pledged deposits are treated as eligible funded credit protection. Collateral policies are periodically revised to be in line with European Regulations and relevant Directives of the Central Bank of Cyprus.

Real estate values are monitored bi-annually during the credit reviews carried out internally for provisioning purposes and through the Central Bank's relevant indices. In cases where the Group considers that values assigned to real estate collaterals are out-of-date or subject to significant changes in market conditions, new valuations are obtained.

Table 15 - Exposures covered by Credit Protection

The table below presents all types of collateral (other than real estate collateral treated as a separate asset class) applied in the risk-weighted assets calculations and meet all the minimum requirements of the CRR Articles 192 to 217 for credit risk mitigation under the Standardised Approach for Credit Risk.

Exposure class	Funded Credit Protection €000	Unfunded Credit Protection €000
Central governments or central banks	-	-
Institutions	-	-
Corporate	5.340	-
Retail	5.521	-
Secured by mortgages on immovable property	-	-
Exposures in default	339	1.133
Items associated with particular high risk	-	-
Equity	-	-
Other Items	-	-
Total	**11.200**	**1.133**

5.6 Risk of impairment

Past due items
Past due loans and advances are those with delayed payments or in excess of authorised credit limits. Loans that are 90 days past due are considered defaulted in accordance with Article 178 of the CRR and are assessed for impairment either individually or collectively. An impairment allowance is raised against these loans and advances if the expected cash flows discounted at the effective interest rate are less than the carrying value.

Impaired loans
Loans and advances are considered impaired when there are objective indications that the Group will not collect all amounts due in accordance with the contractual terms, unless such loans and advances are fully secured by tangible collateral or other indications exist that the amounts due will be collected.

Objective evidence that loans and advances are impaired include significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise or indications that the borrower will enter bankruptcy.

The Group considers evidence of impairment for loans and advances at both a specific loan and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together exposures with similar risk characteristics.

Provisions are made to reduce doubtful accounts to their estimated recoverable amount. The amount of the specific provision is the difference between the book value and the estimated recoverable amount of the loan taking into account the estimated recoverable amounts from tangible collateral, guarantees, and other expected cashflows. In assessing collective impairment the Group classifies loans and advances into categories with similar risk characteristics and applies probabilities of default and loss given defaults, adjusted for management's judgment for current economic and credit conditions. Consideration is also given on the emergence period which indicates the approximate time required for non-performance to be identified.

Loans and advances are written off to the extent that their recovery is no longer feasible. Doubtful accounts are monitored continuously and provisions for doubtful accounts are released only when events and factors make the collection of doubtful amounts feasible.

Impairment of investments
When there is objective evidence that an available for sale investment is impaired, the cumulative loss that has been recognized in other comprehensive income is reclassified to the income statement. The amount of the cumulative loss that is reclassified from other comprehensive income to the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that investment previously recognized in the income statement.

Impairment of investments in Government Securities and other Debt Securities
The amount of the impairment loss on investments held-to-maturity, which represents the difference between the carrying amount of the investment and the present value of future expected cash flows, discounted at the original effective interest rate of the investment, is taken to the income statement. The carrying amount of the investment is reduced accordingly.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the impairment loss previously recognized is reversed and the reversal is credited to the income statement.

The table below provides a breakdown of impaired and past due exposures by country of incorporation of the counterparty of the relevant exposures.

Table 16 - Impaired and Past Due Exposures by Geographic Area

Impaired and Past Due Exposures and the corresponding Provisions by Counterparty Country of Origin	Cyprus €000	Russia €000	Other €000	Total €000
Impaired Exposures	166.818	7.037	69	173.924
Past Due Exposures	91.826	4.995	71	96.892
Past Due But Not Impaired Exposures	7.874	-	2	7.876
Total Exposure Before Provisions	**174.692**	**7.037**	**71**	**181.800**
Provisions[1]	**68.988**	**4.108**	**69**	**73.165**
Provisions of which Specific	*66.308*	*4.108*	*69*	*70.485*
Total Exposure After Provisions	**105.704**	**2.929**	**2**	**108.635**

The table below provides a breakdown of impaired and past due exposures by industry.

Table 17 - Impaired and Past Due Exposures by Industry

Impaired and Exposures with Days Past Due and the corresponding Provisions pre and after the application of the respective provisions by industry	Impaired Exposures €000	Exposures with Days Past Due €000	Of which: Exposures with Days Past Due Not Impaired €000	Total Impaired or Past Due Exposure Before Provisions €000	Provisions €000	Provisions of which Specific €000	Total Exposure After Provisions €000
1. Construction & Real Estate	48.912	14.527	5.484	**54.396**	**16.704**	*16.167*	**37.692**
2. Hotels, Restaurants & Bars	8.923	8.260	731	**9.654**	**4.422**	*4.411*	**5.231**
3. Manufacturing	31.814	28.563	455	**32.269**	**20.420**	*19.980*	**11.849**
4. Wholesale & Retail Trade	31.190	15.799	2	**31.192**	**8.367**	*7.692*	**22.824**
5. Services	1.904	1.812	-	**1.904**	**1.682**	*1.662*	**223**
6. Health & Social Work	687	675	-	**687**	**602**	*598*	**85**
7. Transport, Storage & Telecommunication	5.890	969	126	**6.016**	**895**	*570*	**5.123**
8. Financial & Insurance	5.174	64	64	**5.237**	**1.623**	*1.563*	**3.614**
9. Other	19.922	19.146	1	**19.923**	**9.840**	*9.567*	**10.083**
10. Private Individuals	15.682	7.077	1.015	**16.696**	**4.785**	*4.447*	**11.911**
Not applicable	3.827			3.827	3.827	3.827	-
Total	**173.924**	**96.892**	**7.876**	**181.800**	**73.165**	***70.485***	**108.635**

[1] Includes also equity impairment

The table below provides the movement in the provisions for customer loans and advances.

Table 18 - Movement in the provisions for loans and advances

2017	**€000**
Balance 1 January 2017	66.272
Exchange differences	(100)
Loans and advances written off	(15.867)
Income suspended for the year	8.017
Charge for the year	6.464
Release of provisions and recoveries	(2.083)
Balance 31 December 2017	62.703
Individual impairment	59.895
Collective impairment	2.808

The table below analyses average exposure values during 2017 by asset class.

Table 19 - Average exposure values by asset class

Exposure class	**Original exposure values net of provisions €000**	**Average exposure €000**
Central governments or central banks	138.411	116.491
Regional governments or local authorities	-	-
Institutions	127.446	121.019
Corporates	148.060	153.142
Retail	43.110	37.558
Secured by mortgages on immovable property	50.940	51.103
Exposures in default	48.364	48.900
Items associated with particular high risk	35.984	40.651
Short-term claims on institutions and corporates	-	-
Equity	763	693
Other Items	13.743	14.037
Total	**606.821**	**583.592**

The table below analyses original exposure values, net of provisions, by country of incorporation of counterparties.

Table 20 - Original exposure values, net of provisions, analysed by country of incorporation of counterparties

Exposures per Asset Class per Country of incorporation of Counterparty	**Cyprus €000**	**UK €000**	**USA €000**	**Russia €000**	**Other €000**	**Total €000**
Central Governments and Central Banks	137.256	-	-	1.155	-	**138.411**
Institutions	52.394	4.826	4.297	-	65.929	**127.446**
Corporates	143.979	-	-	3.036	1.045	**148.060**
Retail	42.260	1	-	724	125	**43.110**
Secured by mortgages on immovable property	48.298	-	-	2.642	-	**50.940**
Exposures in default	47.022	-	-	1.339	3	**48.364**
Items associated with particular high risk	35.920	-	-	64	-	**35.984**
Equity	763	-	-	-	-	**763**
Other Items	13.122	-	-	621	-	**13.743**
Total	**521.014**	**4.827**	**4.297**	**9.581**	**67.102**	**606.821**

The table below analyses total original exposure values, net of provisions, by industry segment.

Table 21 – Original exposure values, net of provisions, analysed by industry segment

€000	Construction & Real Estate	Hotels, Restaurants & Bars	Manufacturing	Wholesale & Retail Trade	Services	Health & Social Work	Transport, Storage &Telecoms	Financial & Insurance	Other	Private Individuals	NA	Total
Central Gov/ Central Banks					41.046			97.366				**138.411**
Institutions								127.446				**127.446**
Corporates	40.872	16.193	5.623	44.530	2.288		17.797	6.223	5.602	8.930		**148.059**
of which SME	13.162	3.667	5.102	9.351	2.288		9.713	830	5.525			***49.639***
Retail	7.170	2.643	4.879	6.493	2.365	1.594	3.264	4.217	4.038	6.447		**43.110**
of which SME	6.822	2.326	4.217	5.369	2.190	1.064	1.183	3.876	2.429			***29.476***
Secured by mortgages on Immovable property	9.407	140	5.094	11.238	475	802	1.116	6.664	6.523	9.481		**50.940**
of which SME	8.612		4.514	8.430	475	762	1.031	6.664	6.193			***36.681***
Default	10.527	3.673	9.962	10.218	183	81	474	64	10.257	2.924		**48.363**
Items associated with particular high risk	35.594	214		1						177		**35.984**
Equity								763				**763**
Other Items											13.743	**13.743**
Total	**103.570**	**22.863**	**25.557**	**72.479**	**46.357**	**2.477**	**22.651**	**242.744**	**26.421**	**27.959**	**13.743**	**606.821**

The table below analyses total exposure values by industry segment before and after provisions.

Table 22 - Exposure values analysed by industry segment

Total Exposure pre and after the application of the respective provisions by industry	Total Exposure Before Provisions	Valuation Adjustments & Provisions	Total Exposure After Provisions
	€000	€000	€000
1. Construction & Real Estate	120.275	16.704	103.571
2. Hotels, Restaurants & Bars	27.286	4.422	22.863
3. Manufacturing	45.978	20.420	25.558
4. Wholesale & Retail Trade	80.846	8.367	72.479
5. Services	48.038	1.682	46.356
6. Health & Social Work	3.078	602	2.477
7. Transport, Storage & Telecommunication	23.544	893	22.651
8. Financial & Insurance	244.366	1.623	242.743
9. Other	36.261	9.840	26.421
10. Private Individuals	32.742	4.785	27.957
11. Not applicable	17.572	3.827	13.745
Total	**679.986**	**73.165**	**606.821**

The table below analyses exposures in default and respective provisions by country of incorporation of counterparties.

Table 23 - Exposures in default and respective provisions by country of incorporation of counterparties

Exposures in default and the respective Provisions by Counterparty Country of Incorporation	Cyprus	Russia	Other	Total
	€000	€000	€000	€000
Total Exposure Before Provisions	91.826	4.995	71	**96.892**
Provisions	44.804	3.656	68	**48.528**
Total Exposure After Provisions	**47.022**	**1.339**	**3**	**48.364**

The table below analyses original exposure values, net of provision, by residual maturity.

Table 24 - Original Exposure values, net of provision, by residual maturity

Asset Class in €'000	< 1 month	1 – 3 months	3 – 12 months	1 – 5 years	> 5 years	Undefined	Total
Central Governments and Central Banks	97.365	19.351	-	-	21.695	-	138.411
Institutions	117.874	-	-	9.477	-	96	127.446
Corporates	4.846	1.876	9.111	83.911	47.074	1.241	148.060
Retail	345	1.927	1.657	30.437	8.407	337	43.110
Secured by mortgages on immovable property	1	4	1.781	15.311	33.842	-	50.940
Exposures in default	1.730	109	359	16.964	29.201	-	48.362
Items associated with particular high risk	-	125	1.509	15.854	18.282	214	35.984
Equity	-	-	-	-	-	763	763
Other Items	-	-	-	-	-	13.743	13.743
Total	**221.161**	**23.392**	**8.834**	**177.537**	**158.501**	**16.395**	**606.821**

6. COUNTERPARTY CREDIT RISK

Counterparty credit risk (CCR) arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as derivatives and securities financing. The Company had no open positions arising from such transactions as at 31 December 2017 and consequently no exposure to CCR.

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Company's Credit Risk Policy prohibits the recognition of securities issued by the obligor, or any related group entity, as eligible collateral for credit risk purposes, and the Company has no exposure to wrong-way risk.

7. MARKET RISK

7.1 Definition of market risk

Market risk is the risk of loss, which emanates from adverse changes in the current prices of listed investments, bonds and other securities or in the assessed fair value of unlisted investments and from adverse fluctuations in interest rates and foreign exchange rates.

Market risk may be analyzed into price risk, interest rate risk, and currency risk.

<u>Price risk</u> is the risk associated with changes in the market prices of various financial instruments (equities, debt securities, commodities, and derivatives) held by the Company.
<u>Interest rate risk</u> arises as a result of changes in the rates of interest and repricing timing mismatches on assets and liabilities.
<u>Currency risk</u> arises from adverse movements in foreign exchange rates when there is a net currency position (asset or liability) in one or more currencies.

7.2 Market Risk Management

i. Price Risk

Equity Investments

Equity price risk is principally managed through a limit framework covering issuer, country, and sector limits.

The value of equity investments held as at 31 December 2017 is analyzed in note 18 of the Annual Financial Report 2017 while sensitivity to equity price risk in note 36.2.1.

Equity investments acquired through the Group's financing and investment operations are accounted for as equity portfolio. These investments are classified as investments available-for-sale.

Investments available-for-sale, include investments intended to be held for an indefinite period of time and can be sold in response to changes in their market value, risks and liquidity requirements. These investments are initially recorded at cost on the date of acquisition and revalued at their assessed fair value on 31st December each year.

Investments listed on stock exchanges are revalued at their assessed fair value on the basis of closing bid prices published by the stock exchange on which they are listed on 31st December each year. Unlisted investments are revalued at their assessed fair value using recognized models and valuation indices adjusted according to the specific circumstances of the particular company. Fair value adjustments are transferred to the revaluation reserve.

Profits or losses on the disposal of equity investments are taken to the income statement in the year in which they are realized. Any related balance in the revaluation reserve is taken to the income statement.

In cases where the diminution in the assessed fair value of investments available for sale is of such a magnitude that the cost is not expected to be recovered in the foreseeable future, the amount of the permanent diminution, which represents the difference between the cost and the assessed fair value, is transferred from the revaluation reserve to the income statement.

Investments in government and other debt securities

Debt securities price risk is principally managed through a limit framework encompassing issuer, sector, rating and duration limits. The value of investments in government and other debt securities held as at 31 December 2017 is analyzed in note 19 of the Annual Financial Report 2017.

Investments in government securities and other debt securities with fixed maturity, which the Group has both the intention and the ability to hold to maturity, are classified as held-to-maturity.

Held-to-maturity investments are carried at their amortized cost, which is calculated taking into account the cost of acquisition, any unamortized premium or discount and deducting any impairment loss.

The amount of the impairment loss on investments held-to-maturity, which represents the difference between the book value of the investment and the present value of future expected cash flows, discounted at the original effective interest rate of the investment, is taken to the income statement.

ii. Interest rate risk

The Group closely monitors on a continuous basis, fluctuations in interest rates and the relationship of assets and liabilities, which are subject to interest rates fluctuations, and takes measures to contain in acceptable levels the effects of these changes on the Group's profitability.

Interest rate risk is measured using interest rate sensitivity gap analysis. The annual impact of any change in interest rates on profit is calculated by multiplying the net asset or liability position repricing in each time band with the assumed change in interest rates.

The interest rate sensitivity gap analysis indicating the effect on the Group's profit of changes in interest rates as at 31 December 2017 was as follows:

Table 25 - Interest rate sensitivity gap analysis

	≤ 1 month €000	1-3 months €000	3-12 months €000	1-5 years €000	> 5 years €000	Non-interest bearing €000	Total €000
Net position	45.189	19.108	(50.005)	5.165	21.695	(41.152)	-
1% reduction in interest rates - effect on profit	(452)	(191)	500	(52)	(217)	-	(412)
1% increase in interest rates - effect on profit	452	191	(500)	52	217	-	412

Additional information on interest rate risk appears in noted 36.2.2 of the Annual Financial Report 2017.

iii. Currency risk

Net currency positions are monitored on a continuous basis and the Group takes measures so that this risk is contained within acceptable boundaries. The foreign exchange position limits prescribed by the Central Bank of Cyprus are adhered to.

Currency risk resulting from the net foreign exchange positions of the Group at 31 December 2017 are set out below. The sensitivity analysis assumes reasonable possible changes in exchange rates of major currencies against the Euro, based on past rate fluctuations.

Table 26 - Foreign exchange risk sensitivity gap analysis

Currency	Net open position €000	Increase in exchange rates %	Effect on profits €000
US Dollar	(39)	+10,0	(4)
British pound	(60)	+10,0	(6)
Russian Rouble	(149)	+30,0	(45)
Other currencies	(37)	+10,0	(4)

Currency	Net open position €000	Decrease in exchange rates %	Effect on profits €000
US Dollar	(39)	-10,0	4
British pound	(60)	-10,0	6
Russian Rouble	(149)	-30,0	45
Other currencies	(37)	-10,0	4

7.3 Capital Requirement for Market Risk

The Group has adopted the Standardized Approach for the calculation of capital requirements with respect to market risk. The Group does not maintain a trading book for holding positions in traded debt instruments or equities nor does it hold any positions in commodities. Hence, capital requirements, if any, arise only in respect of currency risk.

The capital requirement for market risk as at 31 December 2017 was nil due to net open foreign exchange positions lying below the minimum prescribed by regulations.

8. OPERATIONAL RISK

8.1 Definition of Operational Risk

Operational risk is the risk of loss arising from a variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from other external events. It is inherent in every business organization and covers a wide range of issues.

8.2 Operational Risk Management

The Group establishes policies and procedures for managing operational risk and ensures that these are adhered to in the conduct of the Group's operations. Operational risk is managed through appropriate processes and controls including:

- Segregation of duties, independent authorization of transactions, reconciliations, and review of exception reports;
- Write up and implementation of policies and procedures aimed at compliance with regulatory and other legal requirements;
- Development of business continuity plans and disaster recovery plans;
- Personnel training;
- Risk transfer through insurance cover.

Internal Audit carries out independent periodic reviews of the operation of the Group's internal controls.

8.3 Capital requirements for operational risk

The Group applies the Basic Indicator Approach as the basis for estimating the amount of capital required under the Regulation. The capital requirement for operational risk as at 31 December 2017 amounted to €1,963,000.

9. LIQUIDITY RISK

9.1 Definition of liquidity risk

Liquidity risk refers to possible losses that may be incurred due to a potential inability of the Group to meet fully or promptly its cash flow obligations. This risk includes the possibility that the Group may have to raise funding at higher cost.

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowings. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position.

9.2 Liquidity risk management

Liquidity risk is managed by the Treasury Department on a continuous basis by closely monitoring the relationship between cash flow obligations and liquid assets and timely action is being taken to secure financial resources to meet the Group's cash flow funding requirements.

The MB (following recommendation by the ALCO and the RC) approves all policies and procedures concerning liquidity. Summary reports are also submitted to the MB, ALCO and RC on a regular basis in respect of the liquidity position of the Group, as well as recommendations for improved monitoring of liquid funds.

Liquidity by currency is monitored on a daily basis by the Treasury Department to ensure that the Company and Group are within the limits set by the Central Bank's Directive on Prudential Liquidity. As at 31 December 2017 the Company was required to maintain a ratio of Euro liquid assets over liabilities of 20% and a ratio of 70% of its total foreign currency deposits in highly liquid assets. The Company is also required to monitor its liquidity by adhering to a minimum Liquidity Coverage Ratio (LCR) of 100% according to articles 412 and 460 of EU Regulation 575/2013. Further details on LCR appear in the next section.

9.3 Liquidity Coverage Ratio

The LCR is designed to promote short-term resilience of a Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The CRR requires phased-in compliance with the LCR standard from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. Since enactment of Regulation (EU) 2015/61 in September 2016, the LCR is calculated by the Group under this Regulation on a monthly basis. The table overleaf analyzes the components of LCR and the resulting average LCR ratio at each quarter-end during 2017.

Table 27 – Quarterly LCR Ratio 2017

Scope of consolidation: Consolidated		Total unweighted value				Total weighted value			
€ thousands									
Quarter ending on		Mar-17	Jun-17	Sep-17	Dec-17	Mar-17	Jun-17	Sep-17	Dec-17
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					90,894	93,053	110,252	116,108
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	82,183	82,727	80,938	88,590	6,446	6,858	6,625	6,898
3	Stable deposits	47,303	43,986	43,773	52,352	2,365	2,178	2,189	2,618
4	Less stable deposits	34,880	38,740	37,164	35,593	4,081	4,658	4,436	4,228
5	Unsecured wholesale funding	252,229	225,083	232,548	262,350	99,523	88,421	91,223	102,644
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	743	1,405	1,478	4,666	186	351	370	1,167
7	Non-operational deposits (all counterparties)	251,486	223,678	231,070	257,684	99,338	88,069	90,853	101,477
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	4,604	5,446	5,555	5,994	298	367	367	387
11	Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	4,604	5,446	5,555	5,994	298	367	367	387
14	Other contractual funding obligations	5,874	9,272	18,271	7,717	5,057	8,399	17,364	6,717
15	Other contingent funding obligations	55,882	54,199	52,657	53,642	3,759	3,586	3,437	3,427
16	**TOTAL CASH OUTFLOWS**					114,786	107,630	119,015	120,073

CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	112,388	112,388	106,168	122,044	111,685	103,903	105,980	121,171
19	Other cash inflows	78,029	78,029	67,104	64,420	18,616	18,030	16,727	13,530
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**	190,418	175,537	173,272	186,465	130,302	121,146	122,707	134,701
EU-20a	**Fully exempt inflows**	-	-	-	-	-	-	-	-
EU-20b	**Inflows Subject to 90% Cap**	-	-	-	-	-	-	-	-
EU-20c	**Inflows Subject to 75% Cap**	190,418	175,537	174,003	186,465	130,302	116,421	122,707	134,701
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					90,894	93,053	110,252	116,108
22	**TOTAL NET CASH OUTFLOWS**					28,771	26,907	29,754	30,027
23	**LIQUIDITY COVERAGE RATIO (%)**					**315.66%**	**346.41%**	**378.81%**	**386.12%**

10.ASSET ENCUMBRANCE

Asset encumbrance refers to pledging of an asset or entering into any form of transaction to secure, collateralize or credit enhance a transaction from which the said asset cannot be freely withdrawn.

10.1 Encumbered and unencumbered assets by asset type

Table 28 - Encumbered and unencumbered assets by asset type

2017 **In €'000**	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Loans and advances	894	-	213.876	-
Equity instruments	-	-	978	978
Debt securities	-	-	50.671	50.671
Other assets	-	-	277.603	-
Assets of the reporting institution	**894**	**n/a**	**543.128**	**n/a**

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements.

10.2 Collateral received by product type

Table 29 - Collateral received by product type

2017 **In €'000**	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Total collateral received by reporting institution	**-**	**-**

10.3 Encumbered assets/collateral received and associated liabilities

Table 30 - Encumbered assets/collateral received and associated liabilities

€000	Carrying amount of selected financial liabilities
Matching liabilities, contingent liabilities or securities lent	**-**
Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	**-**

11. REMUNERATION DISCLOSURES

This section discloses information relating to the Group's remuneration policies and procedures and Human Resource matters, as well as information about the composition and the mandate of the Nomination and Remuneration Committee ("NRC") of the MB.

11.1 Nomination and Remuneration Committee

Within the authority delegated by the MB, the NRC is responsible for the following matters:

Nomination matters

- Identifying and nominating, for the approval of the MB, candidates for Board vacancies as and when they arise;
- Regularly reviewing the structure, size and composition of the MB and making recommendations with regards to possible changes.

Remuneration Matters

- Determine and agree with the MB the framework or broad policy for the remuneration of the Chairman, the Chief Executive Officer and other members of the MB and of executive management;
- Within the terms of the agreed policy, determine the total individual remuneration package of each executive director including, where appropriate, bonuses and share options;
- Determine targets for any performance-related pay schemes operated by the Company and for the total annual payments made under such schemes.

Human Resources Matters

- Review and approve strategic, policy, and other important human resource issues which may relate, among others, to employee relations, recruitment, promotions, salaries, bonuses, other benefits and termination compensation;
- Review and approve changes in the organizational structure, which should derive from the changing needs of the Bank.

The members of the NRC at 31 December 2017 were Messrs K. Christofi – Chairman, N. Nicolaou, G. Loizou and M. Shiacolas, all of whom were non-executive directors.
Nine meetings of the NRC were held during 2017. No external advisers were used by the NRC in 2017.

The Company's Remuneration Policy is according to the signed collective agreement with the Bank Employees Trade Union (ETYK) and aims to be in line with its business strategy and objectives. The Remuneration Policy is consistent with the effective management of risk and does not provide for variable remuneration for the performance of any member of staff and thus it does not encourage excessive risk undertaking by staff members. In addition, the Remuneration Policy does not provide for the granting of any other type of incentive to staff members (such as the entitlement to shares, options or bonuses).

11.2 Staff who have a material impact on the Group's risk profile

The following groups of individuals represent staff that have a material impact on the Group's risk profile:

- Management Body;
- Senior management and other code staff whose actions could have a material impact on the Group's risk profile.

11.3 Analysis of Remuneration

The Management Body comprised 8 directors as at 31 December 2017, being made up of 2 executives and 6 non-executives. Aggregate remuneration of non-executive directors for the year amounted to €299K divided into €249K in fees and €50K reimbursement of expenses. Non-executive directors receive a fixed remuneration package approved by the NRC each year.

Remuneration of senior management[2] and other code staff[3] for the year was as follows:

Table 31 - Remuneration of senior management and other code staff

	Senior Management	Other Code Staff	Total
Number of beneficiaries	4	22	**26**
Fixed remuneration – Total cost - €'000	404	1.404	**1.808**
Variable remuneration	-	-	**-**
Total remuneration – Total cost - €'000	404	1.404	**1.808**
Outstanding deferred remuneration	-	-	-
New sign-on payments / severance payments	-	-	-

Senior management and code staff remuneration by business area was as follows:

Table 32 - Remuneration by business area

	Senior Management	Retail Banking	Investment Banking	Corporate Functions	Independent Control Functions	Total
Fixed remuneration – Total cost - €'000	404	445	117	678	164	**1.808**

The total number of persons employed by the Group as at 31 December 2017 was 174.

[2] Senior Management includes Executive Directors, and the CEOs of subsidiary companies comprising the Group (from the date of their appointment and/or up to the date of their resignation).

[3] Other Code Staff includes staff whose actions could have a material impact on the Group's risk profile.