The Cyprus Development Bank Group

PILLAR 3 DISCLOSURES
AS AT 31 DECEMBER 2018

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

21 JUNE 2019

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1. INTRODUCTION

Table 1 - Key Metrics as at 31 December 2018

Available Capital	**€'000**	**Leverage Ratio**	**€'000**
Common equity tier 1 ('CET1') capital	38.412	Total Leverage ratio exposure	625.743
Additional tier 1 ('AT1') capital	5.000	Leverage ratio %	6.94%
Total regulatory capital	43.412	Minimum Leverage ratio	3%
		Liquidity Coverage Ratio ('LCR')	
Risk-weighted assets ('RWAs')		Total high-quality liquid assets	274.891
Total RWAs	311.240	Total net cash outflow	108.531
Capital Ratios %		LCR ratio %	253%
CET1	12.34%	Minimum LCR ratio	100%
Total Tier 1	13.95%		
Total available capital	13.95%		
Minimum required capital (Pillar 1 + Pillar 2)	15.07%		

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, brokerage, and financial advisory services.
Further details on the Company's subsidiaries appear in notes 22 and 23 of the Annual Financial Report 2018. 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. JSC cdbbank is under voluntary liquidation which is expected to be completed in July 2019.

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 on August 2017. 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 2018. A summary of key ratios and figures reflected throughout the Pillar 3 disclosures at 31st December 2018 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 2018, which is also published on the Company's website. The reader is referred in particular to **Note 38** of the Annual Financial Report 2018, which provides additional information on financial risk management, as well as **Note 43** 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 Group'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 seven non-executive Directors and one executive Director as at 31st December 2018, as shown on page 3 of the Annual Financial Report 2018. 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 2018 included one female director, representing 12% of the total. No formal female representation or other diversity targets have been set by the Group. However, when selecting new members of the MB and when evaluating the optimum composition of the MB, the need to maintain a well-diversified and balanced set of views and opinions is considered.

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 Group. 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 2018. 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
George Loizou	Acting Chairman - Non Executive (appointed on 1.12.2018)	-	-
Neoclis Nicolaou	Vice Chairman Non-Executive	-	3
Andreas Loizou	Non-Executive Director	-	4
Wahid Pierre Chammas	Non-Executive Director	3	3
George Pavlides	Non-Executive Director	-	2
Menelaos Shiacolas	Non-Executive Director	1	3
Andri Georghiou	Non-Executive Director (resigned on 31.12.2018)	-	-
Costas Argyrides	Executive Director	-	1

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 risk taking or 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:

- Formulate the Group's policy in respect of measuring and monitoring risks;
- Review periodically 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 2018, the RC met five 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 Group'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 an established 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 directly to the RC. The RMU is administratively independent of all operational departments / units of the Group.

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 and mitigate the risks of not achieving business objectives, and to offer adequate 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 Group 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 jeopardizing the viability and sustainability of the Group.

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 Group's willingness to assume certain risks and avoid or minimise other risks in the pursuit of its strategic objectives.

The Group 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 Group's activities. Consequently, an important objective for the Group 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 Group has a low appetite for risk. The Group makes resources available to control operational risks to acceptable levels. The Group 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 management relies on qualitative criteria. The Group has a zero tolerance for any risks which may damage its reputation and to any act of bribery, corruption or fraud.

The Group'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 Group by internally generating capital through profitability and other means. The Group 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 Group's risk appetite and corporate objectives. The Group 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 37.5 to the Annual Financial Report 2018.

The Group's capital adequacy ratios as at 31 December 2018 were as follows:

- Common Equity Tier 1 ratio : 12.34%
- Tier 1 ratio : 13.95%
- Total Capital Adequacy Ratio : 13.95%

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 13.99% for the Group as at 31 December 2018, was marginally below the 15.07% minimum required by the Central Bank of Cyprus. In 2019 the Group proceeded with a rights issue and a private placement which combined with draft operating profitability and positive impact from the resolution of NPE cases as well as the liquidation of the subsidiary in the Russian Federation, have resulted in an increase of the capital ratios above the minimum required. As at 30.04.2019 based on the management accounts, the total Capital ratio on solo basis was 15.85% and the CET1 on solo basis 14.27% compared to a minimum of 15.7% Overall capital ratio and 12.2% required by the Central Bank of Cyprus.

4.2 Own Funds

The Group's regulatory capital comprises Common Equity Tier 1 (CET1) as well as Additional Tier 1 (AT1) items.

Group's Common Equity Tier 1 capital:

- Includes ordinary share capital, share premium, retained earnings (including the profit/loss for the year), reserves, non-redeemable capital account, and minority interests.
- The Bank deducts from its CET1 capital its intangible assets (software and goodwill) and deferred tax assets that rely on future profitability and do not arise from temporary differences (if applicable).
- According to regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017 issued amending Regulation (EU) 575/2013 regarding transitional arrangements for mitigating the impact of the introduction of IFRS9, a portion of the increased expected credit loss provisions is added back to CET1 capital allowing for a transitional period of five years until full impact on 2023. For 2018 the portion added back is 95% and will be gradually reduced to 25% on 2022.

AT1 capital relates to a perpetual subordinated note.

The Group does not have any Tier 2 (T2) capital.

Information on share capital, and the non-redeemable capital account appears in note 33 of the Annual Financial Report 2018, while for the perpetual subordinated note in note 32. 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 2018 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	-9.557
Accumulated other comprehensive income	-4.828
Other Reserves	90
Minority Interest	56
(-) Other Intangible assets	-1.064
Capital account	4.000
Other transitional adjustments to CET1 Capital	3.340
Total Common Equity Tier 1 Capital (CET1 Capital)	**38.412**
Additional Tier 1 Capital (AT1 Capital)	5.000
Total Original own funds (Tier 1 Capital)	**43.412**
Additional own funds (Tier 2 Capital)	0
Total Tier 2 Capital	**0**
Total own funds (Tier 1 Capital + Tier 2 Capital)	**43.412**

The following table provides a reconciliation of own funds between the consolidated balance sheet, as presented in the Consolidated Financial Statements of the Group, 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	**36.257**
(-) Intangible assets	(1.065)
(-) Transitional adjustments for unrealized gains of assets and liabilities measured at fair value	
(-) Transitional adjustments on minority interests	(120)
IFRS 9 adjustment	**3.340**
Total Common Equity Tier 1	**38.412**
Additional Tier 1	**5.000**
Total Tier 1	**43.412**
Tier 2	-
Total Tier 2	**-**
Total Own funds	**43.413**

The table below discloses the components of regulatory capital as at 31st December 2018 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	-7414	-7.414
Accumulated other comprehensive income (and other reserves)	-4.738	-4738
Funds for general banking risk	4.000	4.000
Minority interest (amount allowed in consolidated CET1)	56	56
Independently reviewed interim profits net of any foreseeable charge or dividend		
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**38.279**	**38.279**
Intangible assets (net of related tax liability) (negative amount)	-1.064	-1.064
Losses for the current financial year (negative amount)	-2.143	-2.143
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre -CRR treatment	3.340	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**249**	**-3.207**
Common Equity Tier 1 (CET1) capital	**38.412**	**35.072**
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)	**43.412**	**40.072**
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)		
Total risk weighted assets	**311.240**	**307.525**
Capital ratios		
Common Equity Tier 1 (as a % of risk exposure amount)	**12.34%**	**11.40%**
Tier 1 (as a % of risk exposure amount)	**13.95%**	**13.03%**
Total capital (as a % of risk exposures amount)	**13.95%**	**13.03%**

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 Group's countercyclical capital buffer as at 31 December 2018. 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		
Cyprus	419.932	21.639			21.639	97.81%	0%
Other	19.046	484			484	2.19%	0%
Total	**438.978**	**22.123**			**22.123**	**100%**	

The following table presents the amount of institution-specific countercyclical capital buffer of the Group, as at 31 December 2018.

Table 8 - Amount of institution-specific countercyclical capital buffer

Amount of institution-specific countercyclical capital buffer	
Total Risk Exposure Amount, in €'000	438.978
Institution specific countercyclical buffer rate %	0.00%
Institution specific countercyclical buffer requirement in €'000	-

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 2018 was as follows:

Table 9 - Pillar 1 Minimum Capital Requirements

Risk type	**Pillar 1 Capital Requirements €000**
Credit risk	22.863
Market risk	0
Operational risk	2.025
Credit Valuation Adjustment (CVA) risk	11
Total capital requirements	**24.899**

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 2018 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. The minimum required CET1 has been set at 11.58% and the minimum required Overall capital ratio at 15.075% (including the capital conservation buffer at 1.875%).

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. 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 2017 the Leverage ratio was 8.13%. During 2018 the Leverage Ratio ranged between 8.58% at 31st March 2018 and 6.94% at 31st December 2018.

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 2018 in €'000		Applicable Amounts
1	Total assets as per published financial statements	587.137
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	157
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)	34.928
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	3.521
8	**Total leverage ratio exposure**	**625.743**

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

Table 11- Leverage Ratio Common Disclosure

31 December 2018 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)	590.658
2	(Asset amounts deducted in determining Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**590.658**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	128
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	29
11	**Total derivative exposures**	**157**
Securities financing transaction exposures		
16	**Total securities financing transaction exposures**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	74.866
18	(Adjustments for conversion to credit equivalent amounts)	-39.938
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**34.928**
Capital and total exposure		
20	**Tier 1 capital**	**43.412**
21	**Total leverage ratio exposures**	**625.743**
Leverage ratio		
22	**Leverage ratio (transitional definition)**	**6.94%**

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:	**590.658**
Trading book exposures	
Banking book exposures, of which:	590.658
Covered bonds	
Exposures treated as sovereigns	*265.417*
Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	*2.597*
Institutions	*31.206*
Secured by mortgages of immovable properties	*48.922*
Retail exposures	*17.045*
Corporate	*122.079*
Exposures in default	*46.786*
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	*56.606*

4.7 Comparison if institutions' own funds and capital and leverage ratios with the application of transitional arrangements for IFRS9 or analogous ECLs

The Bank has opted to apply for the EU 2017/2395 transitional arrangements with respect to the introduction of IFRS 9. In this respect, the impact of expected credit losses from the first application of IFRS 9 on Common Equity Tier 1 is allowed over a transitional period of 5 years starting on 2018.

More specifically, the amount added back to regulatory capital over the transitional period decreases based on a weighting factor of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. The impact of IFRS 9 is fully absorbed after the five year transitional period. The Bank also adjusts the calculation of risk weighted assets accordingly so that that it does not receive inappropriate capital relief.

The following table provides a comparison of own funds and capital and leverage with the application of transitional arrangements for IFRS 9 or analogous ECLs.

Table 13 - Comparison of own funds and capital and leverage with the application of transitional arrangements for IFRS9

		31/12/2018 €000
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	38.412
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLSs transitional arrangements had not been applied	35.072
3	Tier 1 capital	43.412
4	Tier 1 capital as if IFRS 9 or analogous ECLSs transitional arrangements had not been applied	40.072
5	Total capital	43.412
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	40.072
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	311.240
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	307.525
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.34%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.41%
11	Tier 1 (as a percentage of risk exposure amount)	13.95%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.03%
13	Total capital (as a percentage of risk exposure amount)	13.95%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.03%
	Leverage ratio	
15	Leverage ratio total exposure measure	625.743
16	Leverage ratio	6.94%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.44%

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 credit 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, 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 to terms and 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) and Risk Committee for approval.

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

5.4 Standardised Approach for Credit Risk

The minimum capital requirement for Credit risk are calculated on an exposure level as defined by the Regulation. The following table shows the risk-weighted exposure amounts by regulatory exposure class and the corresponding minimum capital requirements as at 31st December 2018, based on the Standardized Approach.

Table 14 - Credit Risk-weighted Assets and Capital

	Risk weighted amounts €000	Minimum capital requirements €000
Exposure class		
Central governments or central banks	1.698	136
Regional governments or local authorities	519	42
Multilateral Development Banks	-	-
Institutions	7.038	563
Corporate	123.154	9.852
Retail	11.757	941
Secured by mortgages on immovable property	20.748	1.660
Exposures in default	50.735	4.059
Items associated with particular high risk	46.473	3.718
Equity	813	65
Other Items	22.855	1.828
Total	**285.790**	**22.863**

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 Group 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 quality 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 15 - 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	40.410	40.410
CQS 2	18.237	18.237
CQS 3	253.019	253.019
CQS 4	2	2
CQS 5	1.936	1.936
CQS 6	0	0
Unrated/Not Applicable	351.655	331.681
Total	**665.259**	**645.285**

The main collateral types for the commercial and corporate sectors are mortgages on commercial real estate. For the retail sector, in addition to mortgages on commercial real estate, are mortgages on 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 from qualified external valuers.

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.

Table 16 - Exposures covered by Credit Protection

	Funded Credit Protection €000	Unfunded Credit Protection €000
Exposure class		
Central governments or central banks	-	-
Institutions	-	-
Corporate	5.059	-
Retail	14.819	-
Secured by mortgages on immovable property	-	-
Exposures in default	95	1.182
Items associated with particular high risk	-	-
Equity	-	-
Other Items	-	-
Total	**19.973**	**1.182**

5.6 Risk of impairment

The following section provides an analysis of impaired exposures and exposures with days past due.

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, provided that certain materiality thresholds have been breached, 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.

The new impairment model, applies to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Under IFRS 9 no impairment losses need to be recognised on equity investments.

Under the 'three-stage' model introduced by IFRS 9, financial assets with no significant increase in credit risk since initial recognition, for which 12-month ECL are recognised, are classified as 'stage 1';

financial assets which are considered to have experienced a significant increase in credit risk but are not credit impaired are allocated to 'stage 2', while financial assets that are considered to be credit impaired are classified in 'stage 3'. For financial assets allocated to stage 2 and stage 3, lifetime losses are recognised.

POCI financial assets include assets purchased at a deep discount and substantially modified assets arising from de-recognition of the original asset that are considered originated credit impaired. POCI financial assets remain a separate category until derecognition and are classified as stage 2.

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 in Government Securities and other Debt Securities
IFRS 9 effectively incorporates an impairment review for financial assets that are measured at fair value, as any fall in fair value is taken to profit or loss or other comprehensive income for the year, depending upon the classification of the financial asset.

Based on the accounting treatment of financial assets measured at fair value through other comprehensive income (FVOCI) described in section 7.2, the ECLs do not reduce the carrying amount of the financial assets in the statement of financial position, which remains at fair value. Instead, the amount equal to the ECL allowance is recognized in other comprehensive income as the "accumulated impairment amount".

For more details on the impairment policies of the Group refer to note 2 and 3 of the Annual Financial Report 2018.

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

Table 17- Impaired and Past Due Exposures by Geographic Area

Impaired and Past Due Exposures and the corresponding Provisions by Counterparty Country of Origin	Impaired Exposures	Exposures with days past due
Cyprus	142.464	129.275
Russia	2.971	27
Other Countries	75	80
Total	**145.510**	**129.382**

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

Table 18 - Impaired and Past Due Exposures by Industry

Impaired and Exposures with Days Past Due by industry	Impaired Exposures €000	Exposures with Days Past Due €000
1. Construction & Real Estate	37.195	27.628
2. Hotels, Restaurants & Bars	10.361	11.819
3. Manufacturing	33.163	10.349
4. Wholesale & Retail Trade	22.748	33.372
5. Services	1.664	20.275
6. Health & Social Work	410	1.948
7. Transport, Storage & Telecommunication	699	1.364
8. Financial & Insurance	506	700
9. Other	20.383	1.262
10. Private Individuals	18.381	20.664
Not applicable	-	-
Total	**145.510**	**129.382**

The table below provides an ageing analysis of exposures with days past due as at 31.12.2018:

Table 19 - Ageing analysis of exposures with days past due

Ageing analysis of past due exposures as at 31 December 2018	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 1 year	Total
Loans	16.414	2.941,27	93	4.553	105.381	**129.382**
Debt securities	-	-	-	-	-	
Total exposures	**16.414**	**2.941,27**	**93**	**4.553**	**105.381**	**129.382**

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

Table 20 - Movement in the provisions for loans and advances

	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total €'000
1 January 2018	1.470	1.231	59.809	193	**62.703**
Impact of adopting IFRS 9 at 1 January 2018	122	1.974	859	200	**3.155**
Restated balance at 1 January 2019	1.592	3.205	60.668	393	**65.858**
Transfer from Stage 1 to Stage 2	(13)	13			
Transfer from Stage 1 to Stage 3	(27)		27		
Transfer from Stage 2 to Stage 3		(610)	610		
Transfer from Stage 3 to Stage 2		359	(359)		
Transfer from Stage 2 to Stage 1	498	(498)			
Transfer from Stage 3 to Stage 1	46		(46)		
Exchange differences			9		**9**
Loans and advances written off	(53)	(60)	(5.789)		**(5.902)**
Charge/(reversal) for the year	(19)	(882)	7.905	(362)	**6.643**
Previously written off now recovered	-	-	(33)	-	**(33)**
31 December 2018	2.024	1.527	62.992	31	**66.575**

The table below analyses average exposure values during 2018 by asset class.

Table 21- Average exposure values by asset class

Exposure class	Original exposure values net of provisions €000	Average exposure €000
Central governments or central banks	261.100	187.718
Regional governments or local authorities	2.597	1.704
Multilateral Development Banks	4.317	3.190
Institutions	31.363	75.460
Corporates	169.138	166.422
Retail	42.667	41.026
Secured by mortgages on immovable property	49.879	49.561
Exposures in default	46.885	47.467
Items associated with particular high risk	31.689	30.595
Short-term claims on institutions and corporates	-	-
Equity		835
Other Items	24.811	24.140
Total	**665.259**	**628.118**

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

Table 22 - Original exposure values, net of provisions, analysed by country of incorporation of counterparties

Exposures per Asset Class per Country of incorporation of Counterparty	**Cyprus**	**Austria**	**Italy**	**France**	**Russia**	**USA**	**Other countries**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central Governments and Central Banks	229.929	-	8.987	-	3.396	15.679	3.109	**261.100**
Regional governments or local authorities	-	-	-	-	-	-	2.597	**2.597**
Multilateral Development Banks	-	-	-	-	-	-	4317	**4.317**
Institutions	2.115	10.352	-	15.588	-	-	3.308	**31.363**
Corporates	153.849	-	-	-	1.228	14.061	-	**169.138**
Retail	42.471	-	-	-	81	-	115	**42.667**
Secured by mortgages on immovable property	49.517	-	-	-	362	-	-	**49.879**
Exposures in default	46.881	-	-	-	-	-	4	**46.885**
Items associated with particular high risk	31.689	-	-	-	-	-	-	**31.689**
Equity	813	-	-	-	-	-	-	**813**
Other Items	23.784	-	-	-	-	-	-	**24.811**
Total	**581.048**	**10.352**	**8.987**	**15.588**	**6.094**	**29.740**	**13.450**	**665.259**

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

Table 23 - 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	N/A	Total
Central Gov/ Central Banks	-	-	-	-	56.909	-	-	204.191	-	-	-	**261.100**
Regional governments or local authorities	-	-	-	-	2.597	-	-	-	-	-	-	**2.597**
Multilateral Development Banks	-	-	-	-	865	-	-	1713	1739	-	-	**4.317**
Institutions	-	-	-	-	-	-	-	31.363	-	-	-	**31.363**
Corporates	39.394	22.192	15.796	44.753	8.097	-	23.254	1.796	6.351	7.505	-	**169.138**
of which SME	16.275	5.762	5.668	10.576	8.097	-	100	352	5.863	-	-	**52.692**
Retail	12.885	2.241	4.095	6.287	1.716	1.533	1.046	4.250	2.391	6.223	-	**42.667**
of which SME	12.885	1.563	3.580	4.464	1.602	1.025	846	3.895	1.384	-	-	**31.245**
Secured by mortgages on Immovable property	15.737	419	4.832	9.098	419	660	1.028	604	6.140	10.941	-	**49.879**
of which SME	15.467	419	4.151	6.341	419	646	1.028	604	6.121	-	-	**35.196**
Default	7.786	3.975	9.474	11.942	275	29	185	187	9.933	3.098	-	**46.885**
Items associated with particular high risk	31.506	183	-	-	-	-	-	-	-	-	-	**31.689**
Equity	-	-	-	-	-	-	-	813	-	-	-	**813**
Other Items	-	-	-	-	-	-	-	-	-	-	24.811	**24.811**
Total	**107.309**	**29.010**	**34.198**	**72.081**	**70.877**	**2.223**	**25.513**	**244.916**	**26.554**	**27.767**	**24.811**	**665.259**

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

Table 24 - 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	119.310	12.001	107.309
2. Hotels, Restaurants & Bars	33.903	4.893	29.010
3. Manufacturing	56.702	22.504	34.198
4. Wholesale & Retail Trade	81.126	9.045	72.081
5. Services	72.281	1.404	70.877
6. Health & Social Work	2.611	388	2.223
7. Transport, Storage & Telecommunication	26.777	1.264	25.513
8. Financial & Insurance	240.777	69	240.708
9. Other	37.252	10.698	26.554
10. Private Individuals	33.286	5.517	27.768
11. Not applicable	34.330	5.311	29.018
Total	**738.355**	**73.095**	**665.259**

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

Table 25 - 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**	**Other**	**Total**
	€000	**€000**	**€000**
Total Exposure Before Provisions	99.617	75	99.692
Provisions	52.736	71	52.807
Total Exposure After Provisions	**46.881**	**4**	**46.885**

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

Table 26 - Original Exposure values, net of provision, by residual maturity

Allocation of exposures by residual maturity at 31 December 2018 Asset Class	**On demand**	**<=1 year**	**>1 year <=5 years**	**>5 years**	**No stated maturity**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Central Governments and Central Banks	204.191	24.666	26.858	5.385	-	261.100
Regional governments or local authorities	-	-	-	2.597	-	2.597
Multilateral Development Banks	-	-	-	4.317	-	4.317
Institutions	3.564	25.162	-	2.637	-	31.363
Corporates	67.457	21.383	52.848	27.448	-	169.137
Retail	15.051	4.114	12.057	11.445	-	42.667
Secured by mortgages on immovable property	8.401	201	37.828	3.449	-	49.879
Exposures in default	3.238	145	28.050	15.451	-	46.885
Items associated with particular high risk	1.406	2.047	15.020	13.033	183	31.689
Equity	-	-	-	-	813	813
Other Items	-	-	-	-	24.811	24.811
Total	**303.308**	**77.719**	**172.661**	**85.763**	**25.807**	**665.259**

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. Exposure was limited as at 31 December 2018.

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Group'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 Group 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.

Price risk is the risk associated with changes in the market prices of various financial instruments (equities, debt securities, commodities, and derivatives) held by the Group.

Interest rate risk arises as a result of changes in the rates of interest and repricing timing mismatches on assets and liabilities.

Currency risk 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. Equity Investments

Price Risk
The risk of loss from changes in the price of equity securities arises when there is an unfavorable change in the prices of equity securities held by the Group as investments.

Investments in equities are outside the Group's risk appetite. The current portfolio of equity investments comprises mainly of holdings in two companies listed in the Cyprus Stock Exchange. The prices of equity investments are being monitored by the Group on a continuous basis.

Accounting treatment
Equity investments held by the Group are classified at FVOCI. Fair value gains and losses on these equity instruments are recognised in OCI and are not recycled to profit or loss upon derecognition, but are transferred directly to retained earnings. Dividends on equity investments are recognised in the consolidated income statement and reported within 'Other Income' when the right to receive payment has been established. Equity instruments measured at FVOCI are not subject to an impairment assessment

The value of equity investments held as at 31 December 2018 is analyzed in note 19 of the Annual Financial Report 2018 while sensitivity to equity price risk in note 38.2.1.

ii. Debt Securities

Price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Bank. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Bank invests a significant part of its liquid assets in debt securities. The current portfolio of debt securities is classified at fair value through other comprehensive income (FVOCI), hence changes in the value the securities affect the equity of the Group. The Bank's policy relating to valuation of debt securities, is stated in note 3 - Significant Accounting Policies.

Accounting treatment

Debt securities are classified and measured at fair value through other comprehensive income (FVOCI). Upon subsequent measurements of FVOCI a gain or loss on debt securities shall be recognised in other comprehensive income, except for impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the debt instrument is derecognized the cumulative gains or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

The value of debt securities held at 31 December 2018 is analysed in note 21 of the Annual Financial Report 2018 while the impact on the equity of the Bank and the Group from a change in the price of the debt securities held is presented in note 38.2.1 of the Annual Financial Report 2018.

iii. 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 and economic value.

Interest rate risk is measured using interest rate sensitivity gap analysis. The annual impact of any change in interest rates on profit and economic value 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 2018 was as follows:

Table 27 - 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	(5.014)	(16.940)	9.066	26.625	26.858	(40.595)	-
1% reduction in interest rates - effect on profit	50	169	(91)	(266)	(269)	-	(407)

1% increase in interest rates - effect on profit	(50)	(169)	91	266	269)	-	407

Additional information on interest rate risk appears in noted 38.2.2 of the Annual Financial Report 2018.

iv. 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 2018 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 28 - Foreign exchange risk sensitivity gap analysis

Currency	**Net open position €000**	**Increase in exchange rates %**	**Effect on profits €000**
US Dollar	153	+10,0	15
British pound	(19)	+10,0	(2)
Russian Rouble	(29)	+30,0	(9)
Other currencies	(38)	+10,0	(4)

Currency	**Net open position €000**	**Decrease in exchange rates %**	**Effect on profits €000**
US Dollar	153	-10,0	(15)
British pound	(19)	-10,0	2
Russian Rouble	(29)	-30,0	9
Other currencies	(38)	-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 2018 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 effectiveness, adequacy and relevance 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 2018 amounted to €2.025.000.

9. LIQUIDITY RISK

9.1 Definition of liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due, and risk that the Group will be unable to meet its liquidity obligations without a substantial rise in appropriate costs. Liquidity risk also includes the risk that the Group will be unable to finance increases in assets as its funding requirements rise.

9.2 Liquidity risk management

Liquidity risk is managed by the Treasury Department and ALCO 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.

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. The Group is 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 table overleaf analyzes the components of LCR and the resulting average LCR ratio at each quarter-end during 2018.

Table 29 - Quarterly LCR Ratio 2018

Scope of consolidation: Consolidated		Total unweighted value				Total weighted value			
€ thousands									
Quarter ending on		Mar-18	Jun-18	Sep-18	Dec-18	Mar-18	Jun-18	Sep-18	Dec-18
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)					134.468	167.103	182.367	236.640
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	89.194	87.557	91.110	111.273	6.771	6.830	7.085	8.947
3	Stable deposits	54.781	51.941	54.183	61.002	2.739	2.178	2.709	3.050
4	Less stable deposits	34.413	35.616	36.926	50.271	4.031	4.233	4.376	5.897
5	Unsecured wholesale funding	276.676	285.659	285.737	289.997	108.845	112.216	112.301	113.373
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	2.630	3.389	3.646	6.047	658	847	911	1.511
7	Non-operational deposits (all counterparties)	274.045	282.270	282.092	283.950	108.188	111.369	111.390	111.862
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	6,795	7,824	5,966	5,781	391	528	328	391
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	6.795	7.824	5.966	5.781	391	528	328	391
14	Other contractual funding obligations	9.266	6.059	9.072	22.036	8.313	4,829	8,055	21,369
15	Other contingent funding obligations	57.477	53.616	60.766	65.406	3.736	3,307	3,826	3,526
16	**TOTAL CASH OUTFLOWS**					127.665	127.710	131.595	147.606

CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	119,544	73,645	106,168	34,752	118,752	70,834	55,925	32,945
19	Other cash inflows	61,811	64,719	67,104	58,376	12,980	13,387	13,025	12,167
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**	181.355	138.364	173.272	93.128	131.732	84.595	68.950	45.112
EU-20a	**Fully exempt inflows**	-	-	-	-	-	-	-	-
EU-20b	**Inflows Subject to 90% Cap**	-	-	-	-	-	-	-	-
EU-20c	**Inflows Subject to 75% Cap**	181.355	138.364	174.003	93.128	131.732	84.595	68.950	45.112
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					134.468	167.103	182.367	236.640
22	**TOTAL NET CASH OUTFLOWS**					32.013	43.552	62.979	102.492
23	**LIQUIDITY COVERAGE RATIO (%)**					400.00%	397.00%	291.67%	231.67%

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 30 - Encumbered and unencumbered assets by asset type

2018 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	5.050	-	471.965	-
Equity instruments	-	-	996	96
Debt securities	-	-	79.622	79.622
Other assets	-	-	32.217	-
Assets of the reporting institution	**5.050**	**n/a**	**584.800**	**n/a**

Balances with other banks as at 31 December 2018 include an encumbered amount of €899 thousand used to cover collateral required for trade finance transactions and guarantees issued for clients.

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 31 - Collateral received by product type

2018 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 32 - 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 Group 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 2018 were Messrs G.Loizou – Chairman, N. Nicolaou, M. Shiacolas and A.Georghiou all of whom were non-executive directors.

Seven meetings of the NRC were held during 2018. The NRC is consulted by a legal counsel on Human Recourses issues.

The Group'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 2018, being made up of 1 executive and 7 non-executives. Aggregate remuneration of non-executive directors for the year amounted to €210K divided into €207K in fees and €3K reimbursement of expenses. Non-executive directors receive a fixed remuneration package approved by the NRC each year.

Remuneration of senior management[1] and other code staff[2] for the year was as follows:

Table 33 - Remuneration of senior management and other code staff

	Senior Management	Other Code Staff	Total
Number of beneficiaries	4	21	**25**
Fixed remuneration – Total cost - €'000	345	1.499	**1.844**
Variable remuneration	-	-	**-**
Total remuneration – Total cost - €'000	345	1.499	**1.844**
Outstanding deferred remuneration	-	-	-
New sign-on payments / severance payments	-	-	-

[1] 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).
[2] Other Code Staff includes staff whose actions could have a material impact on the Group's risk profile.

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

Table 34 - Remuneration by business area[3]

	Senior Management	Retail Banking	Investment Banking	Corporate Functions	Independent Control Functions	**Total**
Fixed remuneration – Total cost - €'000	345	2.661	279	2.000	302	**5.587**

The total number of persons employed by the Group as at 31 December 2018 was 153.

[3] Fixed remuneration includes salaries and contributions to government.

Internal Auditors' Report to the Central Bank of Cyprus in respect of Cyprus Development Bank Group for the year ended 31st December 2018, pursuant to Article 431, Title I, of Part Eight of the European Regulation No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation No 648/2012

1. I report in relation to the fair presentation of the disclosures (the "Pillar III Disclosures" or "Disclosures") of Cyprus Development Bank Group (the "Company") for the year ended 31st December 2018 required by paragraph 1 of Article 431, Title I, of Part Eight of the European Regulation No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation No 648/2012 (the "Regulation" or "CRR"). The Disclosures, which are attached to this report, are also set out on the Company's website (www.cdb.com.cy).

Respective responsibilities

2. The Company's Board of Directors is responsible for the preparation and fair presentation of the Disclosures in accordance with the Regulation. My responsibility is to express an independent conclusion in relation to the fair presentation of the Disclosures, in all material respects, in accordance with the requirements of the Regulation.

Scope of work performed

3. I planned and performed the audit work to obtain limited assurance whether any matters have come to my attention that cause me to believe that the Disclosures are not fairly presented, in all material respects, in accordance with the requirements of the Regulation. The procedures followed included verifying, on a sample basis, the compliance of the Disclosures with the requirements of paragraph 1 of Article 431, Title I, of Part Eight of the Regulation, as well as obtaining evidence supporting certain of the amounts and notifications included in the Disclosures. The procedures also included an assessment of any significant estimates made by the Company's Board of Directors in the preparation of the Disclosures. I believe that the procedures provide a reasonable basis for my conclusion.

Conclusion

4. Based on the work described in this report, nothing has come to my attention that causes me to believe that the Disclosures for the year ended 31st December 2018 are not fairly presented, in all material respects, in accordance with the requirements of the Regulation.

5. My report is solely for the purpose as set out above and is not to be used for any other purpose or to be distributed to any other parties without my prior consent in writing. This report relates only to the Disclosures required pursuant to paragraph 1 of Article 431 of the Regulation and does not extend to any financial statements or other financial information of the Company.

Andreas Andreou
Internal Auditor

Nicosia, 26 June 2019