AstroBank Limited

DISCLOSURES
IN ACCORDANCE WITH PILLAR III OF BASEL III
FOR THE YEAR ENDED 31 December 2018

ACCORDING TO PART EIGHT OF THE EUROPEAN REGULATION No 575/2013 ON PRUDENTIAL REQUIREMENTS FOR CREDIT INSTITUTIONS AND INVESTMENT FIRMS

NOVEMBER 2019

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1. INTRODUCTION

AstroBank Limited (the “Bank”) was incorporated as a private limited liability company, in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The principal activities of the Bank are the provision of banking and financial services. During 2018, the Bank operated in Cyprus through 13 Retail Banking branches, 2 Service Centers for Large Corporate Companies and SMEs and 2 Service Centers for International Business Services.

Through an agreement dated 31 July 2018 entered into between the Bank and USB Bank PLC (“USB”), it was agreed that the Bank would acquire all the assets, liabilities and the banking business of USB, excluding only certain property assets, with a view to consolidate it with its own business. The assets and liabilities of USB mainly relate to loans receivable, customer deposits, cash, debt securities and stock of properties. The agreement was completed on 18 January 2019 for a total consideration of €40.245.637, following satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited Reference Accounts) by the seller, seller’s shareholder approval and successful completion of the capital raise on the part of the Bank.

The transaction was supported by a capital increase of €54m of which: (a) €44m Ordinary Shares (5.648.267 shares €7,79 each), and (b) €10m Preference Shares (1.250.000 shares €8 each) which are eligible as AT1, and which were mainly provided by AstroBank’s current shareholders. The preference shares (PRCS) are redeemable and may be redeemed by AstroBank only. There is no fixed redemption date or maturity date. They are unsecured and rank (a) junior to (i) all liabilities of the Group including subordinated liabilities and (ii) instruments issued or guaranteed ranking senior to PRCS, (b) pari passu with each other and (c) senior to the ordinary shares. The preference shareholders do not have the right to be present or to vote at any general meeting of AstroBank. PRCS have the right to the distribution to be paid annually following signing of the financial statements of the Group. AstroBank may elect, in its sole and absolute discretion, not to pay and/ or to cancel the payment of the Distribution on the PRCS in whole or in part at any time and for any reason.

The benefits of the acquisition of USB Bank’s business focus on:
- strengthening the Group’s presence in the market;
- increase in momentum and enhancement of the capacity and potential of the future organic growth;
- the existence of substantial synergies relating to operating costs and revenue.

2. SCOPE OF APPLICATION

The following information represents the Pillar III disclosures of the Bank for the year ended 31 December 2018, in accordance with the requirements of Part Eight of the EU Regulation No. 575/2013 on Prudential Requirements for Credit Institutions and Investment Firms and amending Regulation (EU) No. 648/2012 (the “Regulation” or “CRR”). The Bank’s policy is to meet all Pillar III disclosure requirements as detailed in the CRR. The Pillar III disclosures are published on an annual basis on the Bank's website http://www.astrobank.com.

The responsibility for the preparation of the Pillar III disclosures lies with the Bank's Risk Management Department while final approval is granted by the Board of Directors, following independent review and verification. The present disclosures have been prepared on a stand-alone basis, as per the stand-alone audited financial statements of the Bank for the year ended 31 December 2018. The Bank has the following subsidiary companies, which have not been consolidated for regulatory purposes:

Template 3 (EU LI3) – EBA Guidelines: Outline of the differences in the scopes of consolidation (entity by entity)

Subsidiary companies	Holding (%) 31 December 2018	Description of main activities	Basis of consolidation for regulatory purposes
EMF Investors Limited	100%	Dormant	The company is not consolidated and is deducted
AstroBank Insurance Agency Limited (Former Piraeus (Cyprus) Insurance Brokerage)	100%	Insurance Broker	The company is not consolidated and is deducted
Adflikton Investments Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Costpleo Investments Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Custsofiar Enterprises Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Gravieron Company Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Kaihur Investment Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Pertanam Enterprises Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Rockory Enterprises Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Alarconaco Enterprises Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Langesee Ltd	100%	Investment property owner	The company is not consolidated and is deducted
Bakkens Limited	100%	Investment property owner	The company is not consolidated and is deducted
Achardz Limited	100%	Investment property owner	The company is not consolidated and is deducted
Xepa Limited	100%	Investment property owner	The company is not consolidated and is deducted
Olemo Limited	100%	Investment property	The company is not consolidated and is deducted
Todero Limited	100%	owner	The company is not consolidated and is deducted
Castlehawk Limited	100%	Investment property	The company is not consolidated and is deducted
Dacibel Limited	100%	owner	The company is not consolidated and is deducted
Dicoder Limited	100%	Investment property	The company is not consolidated and is deducted
Amatorco Limited	100%	owner	The company is not consolidated and is deducted
Nexelleuce Limited	100%	Investment property	The company is not consolidated and is deducted

Consolidation

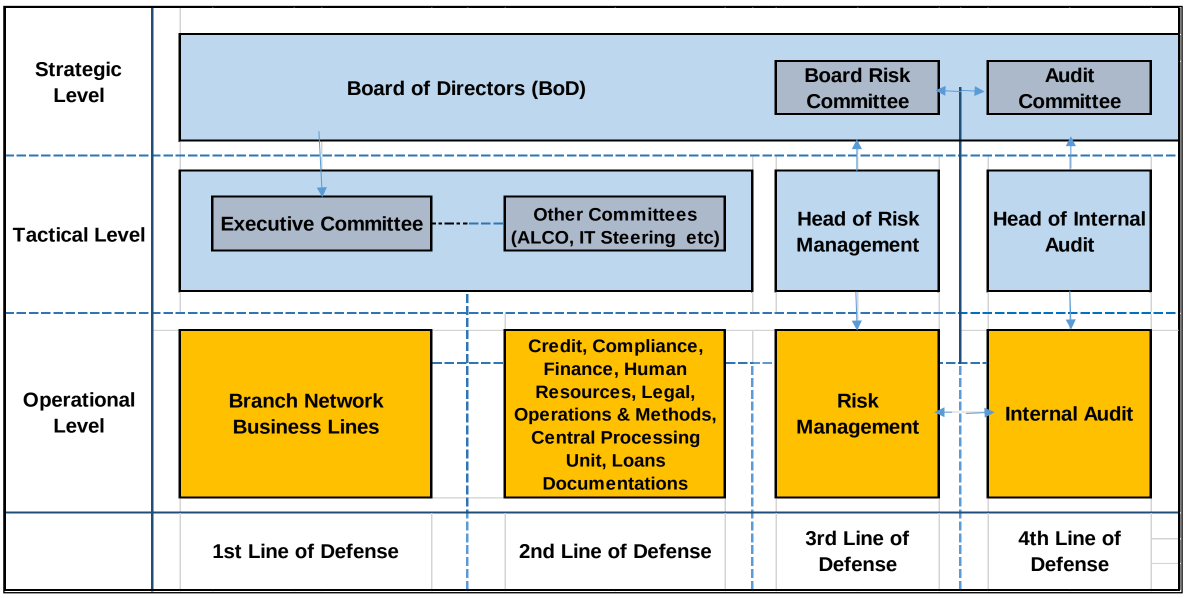
The Audited Consolidated Financial Statements for the year 2018 were approved by the Board on 27 June 2019. The disclosures herein have been prepared based on the separate financial statements of the Bank as the subsidiary companies have not been consolidated for regulatory purposes. The main activities of the Investment Property subsidiary companies, is the holding and administration of property acquired by the Bank in debt satisfaction.

3. GOVERNANCE AND RISK MANAGEMENT

As a financial institution, the Bank is exposed to a number of risks, which mainly consist of Credit and Counterparty Credit Risk, Market and Liquidity Risk and Operational Risk. The Bank monitors and manages these risks through various control mechanisms, based on a risk management program that focuses on the unpredictability of the economic environment in which it operates and which at the same time seeks to minimize potential adverse effects on its financial performance.

Risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, to monitor risks and to ensure adherence to limits. The risk management policies are reviewed regularly to reflect changes in market conditions as well as in the Bank's activities.

The Bank applies a model of defined roles and responsibilities regarding the management of risk (defense lines), in line with the regulatory framework for evaluation of the organization of internal control systems (CRD IV) and with best banking practices. Risk governance is organized in two key dimensions that generate a governance matrix in which units, committees and management bodies are located according to (a) the line of defense to which their activities belong to and (b) their hierarchical level. The organizational structure is presented schematically in the following diagram:



3.1 Board of Directors

The Board of Directors is the supreme governing body. As at 31 December 2018 the Board consisted of two Executive directors and eleven Non-Executive directors, of which seven were also Independent. The Board is chaired by an Independent Non-Executive director.

The constant pursuit of the Board is to enhance the long-term economic value of the Bank and the defense of its general interests by always applying the provisions of the institutional framework, its internal regulations and the principles of corporate governance. The Board is mainly responsible for charting the strategy, establishing policies and monitoring compliance with them as well as for the overall supervision of the work and the activities of the Bank.

More specifically, the role and responsibilities of the Board include the following:

- Approve the Bank's Business Strategy, including the risk appetite framework, prioritizing the current and future goals as well as the annual budget and planning for the allocation of use of Bank capital.
- Approve and oversee the implementation of risk strategy, including the approval of risk policies as well as of the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) documents.
- Ensure the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards.
- Approve the governance structure of the risk management framework.
- Monitor and periodically assess the effectiveness of the Bank's governance arrangements and take appropriate measures to address any deficiencies.
- Evaluate governance decisions or practices to ensure they:
    - are not in breach of the provisions of the CRR and all other applicable legislation and standards
    - are not detrimental to:
        - the sound and prudent management of the Bank
        - the financial health of the Bank
        - the legal interests of the Bank's stakeholders.
- Appoint the members of the Board Risk Committee and delegate authority to it and the Risk Management Department, as appropriate, for developing the risk management strategy, policies and supporting methodologies.
- Appoint the members of the Board Audit Committee, which is responsible for the monitoring and assessment of the adequacy and effectiveness of internal control and information systems.
- Appoint the members of the Board Nomination and Remuneration Committee, which is responsible for the remuneration policies and practices as well as for the incentives for managing risks.
- Oversee and ensure the effective and consistent implementation of risk management policies and supporting methodologies at the business line level.
- Promote a risk awareness culture and common risk terminology across the Bank.

- Provide appropriate resources and means for effective risk management.
- Review and approve business objectives and ensure that these are in line with the Bank's appetite to Credit, Market & Liquidity and Operational Risk tolerance levels.
- Monitor risk-adjusted performance against business objectives, strategies and plans.
- Ensure that an independent risk management framework is in place in which risks are assessed effectively, objectively and in a timely manner.

During 2018, the Bank's Board of Directors held nine meetings.

In the context of achieving continuous improvement and proper management of the Bank, the Board delegates a number of its responsibilities to various Board Committees, as further analyzed in the section that follows.

3.2 Board Committees

3.2.1 Board Risk Committee

The Board has appointed a sub-committee, the Board Risk Committee ("BRC"), as the highest authority assisting the Board for risk management in the Bank. As at 31 December 2018 the BRC was comprised of an Independent Non-Executive director (also the Chairman of the Board and BRC), one Independent Non-Executive director and one Non-Executive director. Its terms of reference are approved by the Board. Members of the Risk Committee have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Bank.

The Board Risk Committee's mission is to assist the Board in relation to:

- The existence of an appropriate strategy for risk management and the establishment and oversight of risk appetite limits in a way that they fulfil the Bank's business objectives and ensure the adequacy of resources (including human resources).
- The establishment of principles and rules governing the risk control processes associated with the identification, measurement, monitoring, control and management of risks.
- The development of an appropriate internal environment of risk awareness and the integration of appropriate risk management policies within the business decision process.
- Compliance, through rigorous and reliable processes, under the charter of the Risk Management Department and in accordance with the applicable regulatory framework.
- The adequacy and robustness of information and communication systems to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner and to ensure the adequate protection of the Bank's confidential and proprietary information.

In addition, the BRC is responsible for monitoring the independence, adequacy and effectiveness of the Risk Management and Information Security Departments. During 2018, the BRC met six times.

3.2.2 Audit Committee

The Audit Committee aims to assist the Board with respect to carrying out its supervisory responsibilities for issues that primarily concern:

- The Bank's Internal Controls System.
- The procedures for preparing the annual and interim financial reports.
- The external auditors / accountants.
- The Internal Audit Unit (IAU).
- The Compliance Unit (CU).
- The observance of the Bank's Code of Conduct.

As at 31 December 2018 the Audit Committee was made up of one Non-Executive director and four Independent Non-Executive directors of the Board, and it convened six times during the year.

3.2.3 Nomination and Remuneration Committee

As at 31 December 2018 the Nomination and Remuneration Committee was comprised of a Non-Executive director (also the Chairman of the NRC) and two Independent Non-Executive directors. The Committee has a dual function by acting as a Nomination Committee for the replacement / succession of members of the Board, and as a Remuneration Committee. During 2018 the Nomination and Remuneration Committee held two meetings. More information on its role and duties can be found in section 11 of these disclosures.

3.2.4 Board Credit Committee

The Board has appointed a sub-committee, the Board Credit Committee (BCC), as the highest authority for the approval of deviations from the Bank's credit policy. As at 31 December 2018, the BCC was comprised of an independent Non-Executive director and three Non-Executive directors (one is also the Chairman of the BCC). If any of the four directors is absent he/she is replaced by an alternate director, who is independent and non-executive. The committee convened once during the year.

3.3 Recruitment policy for the selection of members of the Management Body

Appointment to the Bank's Board of Directors requires satisfying a set of criteria which include the candidates' academic and employment background, the adequacy and relevance of their knowledge and skills to the business and specificities of the Bank, their ethos and reputation, their personal and professional integrity, their experience and capabilities, their financial standing as well as their management skills. The Members of the Management Body are University graduates in Finance, Business Administration, Law, Economics, etc. and have collective international and or local experience in international, corporate and retail banking. Some of the Members have professional qualification relating to financial matters and all share skills related to finance, corporate governance, legal, audit, finance, strategy, risk, etc.

3.4 Diversity Policy for the selection of members of the Management Body

In order to encourage critical thinking and well-rounded opinions and decision-making, the Bank strives to achieve diversity in the composition of its Board, especially with regards to academic background, professional experience, skills and competencies, age, gender and ethnic/racial origin. In an effort to ensure that the under-represented gender has a minimum percentage representation in the Management Body, the Bank has set a target to increase the proportion of women to 30% by the end of 2023.

3.5 Number of directorships held by members of the Board

The following table presents the number of directorships held at the same time in other entities (including the one held at the Bank) by each member of the Bank's Board of Directors. The directorships presented are those that are in effect at the time of the preparation of the Pillar 3 Disclosures i.e. September 2019. Directorships in organisations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below. In addition, the number of directorships disclosed below include companies belonging to the same group which, based on Article 91 of EU Directive 2013/36/EU ("CRDIV"), can be considered as a single directorship.

Name of Director	Position within the Bank	No. of Directorships	
		Executive	Non-Executive
Shadi A. Karam	Chairman – Non-Executive Director (Independent)	-	4
Andreas Vassiliou	Non-Executive Director (Independent)	-	1
Bassam Najib Diab	Non-Executive Director	1	1
Constantinos Loizides	Non-Executive Director	-	1
George Appios	Executive Director	1	-
George Kourris	Non-Executive Director (Independent)	-	3
George Liakopoulos	Non-Executive Director	-	1
Maria Dionyssiades	Non-Executive Director (Independent)	-	1
Marios Savvides	Executive Director	1	1 (alternate)
Maurice Sehnaoui	Non-Executive Director	1	1
Raoul Nehme	Executive Director (until 30/05/2018) Non-Executive Director (from 31/05/2018 until he resigned on 03/07/2018)	-	1
Socrates Solomides	Non-Executive Director (Independent)	-	4

Costas Partassides	Non-Executive Director (Independent)	-	2
Elena Orfanidou	Non-Executive Director (Independent) (appointed 24/07/2018 and resigned 30/04/2019)	-	1
Hikmat Abou Zeid	Non-Executive Director (as from 16/09/2019)	1	2

Note 1: The information in this table is based only on representations made by the directors to the Bank.
Note 2: According to his declaration, Mr. Partassides also held a third Non-Executive directorship position in a company that was considered as dormant for 31/12/2018.

The following table presents the number of directorships held at the same time in other entities by each member of the Board of Directors of the Bank's subsidiary AstroBank Insurance Agency Ltd, who are not listed above:

Name of Director	Position within the Bank' subsidiary	No. of Directorships	
		Executive	Non-Executive
Triantafyllos Lysimachou	Non-Executive Director	_	3

Note: The information in this table is based only on representations made by the director to the Bank.

3.6 Information flow on risk to the Management Body

The information flow on risk to the Board is achieved, inter alia, through the following reports:

- Annual Report of the Compliance Unit.
- Annual Report of the Anti-Money Laundering Compliance Officer and AML Risk Management Report.
- The ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process) and Recovery Plan.
- Annual Report of the Risk Management Department on Risk Management.
- Annual Report of the Information Security Department on the Security of Information.
- Annual Report of the Internal Audit Unit on the adequacy and effectiveness of the Internal Audit System.
- Annual Performance Assessment Report of the governing body as a whole, its committees and individual members including assessment of the Chairman of the Board of Directors.
- Report every three years assessing the adequacy of the Internal Control System on an individual and consolidated basis by External Auditors.
- Report every three years assessing the composition and operations of the management body and its committee prepared by External Consultants.
- Annual Financial Statements.
- Through updates by the Chairman of the BRC on the Quarterly Risk Management Report of the Risk Management Department provided to the BRC and to Senior Management.
- The Bank's financial results prepared by the Finance Department.

- Through updates by the Chairman of the relevant committee on the Quarterly Reports of Compliance and Internal Audit Departments to Audit Committee and Senior Management.

3.7 Board Declaration - Adequacy of the risk management arrangements

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

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

Furthermore, the Board of Directors declares that the liquidity risk management arrangements and systems of the Bank are adequate with regards to its risk profile and strategy.

3.8 Risk Statement

The Bank aims to have sufficient liquidity and capital resources and maintain stable and recurring profitability. The risk appetite is determined so as not to exceed the risk capacity, given current business conditions, and ensure the Bank's operational smoothness, the achievement of its strategic objectives, as well as the achievement of satisfactory performance. In parallel, it aims to ensure that under adverse business and macroeconomic conditions (crisis scenarios), the risk capacity can be reasonably expected to absorb unexpected losses and/or commitments, safeguarding a minimum level of solvency as well as depositors' and shareholders' interests.

A summary of the Board's Risk Appetite Statement as at 31 December 2018 is provided in Annex I.

3.9 Recovery Plan

During 2017, the Bank as a stand-alone entity produced for the first time its Recovery Plan (RP) following the framework set out in the Bank Recovery and Resolution Directive ("BRRD") with reference to supporting Regulatory Technical Standards and Guidelines issued by the European Banking Authority ("EBA"). The RP presents a set of carefully selected options available to the Bank in order to address hypothetical severe financial difficulties resulting from idiosyncratic vulnerabilities or market-wide issues or a combination of both. Following the completion of the sale of the assets and liabilities of USB Bank to AstroBank Limited on 18.01.2019, the Bank has been granted an extension until 31.12.2019, in order for the Recovery Plan to be updated on a combined entity basis after the completion of the integration project plan, which is estimated in mid-October 2019.

3.10 Internal Control Functions and other Departments

Risk Management Department

The role of the Risk Management Department is to promote a risk management culture across the Bank, develop policies and supporting methodologies for identifying, assessing, and where possible mitigating the Bank's risk exposures, produce risk management information reporting that can be integrated to the Bank's decision making processes, and produce capital adequacy as well as other regulatory reports that fall under *ECB's "Capital Requirements Regulation- CRR -* Regulation (EU) 575/2013"and CBC's "*Capital Requirements Directive – CRD".* The roles and responsibilities of the Risk Management Department are in line with the CBC Directive on Governance – July 2014.

The Head of the Risk Management Department reports directly to the CEO & Managing Director of the Bank and, through the Board Risk Committee, to the Board of Directors. The Risk Management Department is independent from any business activities and has access to all necessary information regarding the activities of all business lines, as well as to the information required to meet its obligations. Due to the small size of the Bank the Information Security Department is also under the supervision of the Head of the Risk Management Department.

The Risk Management Department's overall mission is to:

- Ensure the appropriate implementation of risk management policies approved by the BoD, and where appropriate facilitate the business lines in doing so.
- Develop and implement methodologies for the identification, assessment/measurement and monitoring of risk exposures that arise from the Bank's operations.
- Propose internal limits for specific risk types and monitor their usage.
- Ensure regulatory compliance with CBC-defined risk limits.
- Design risk reports and produce risk management information for the Executive Management, ALCO and Board Risk Committee.
- Recommend to the BRC appropriate techniques for restraining risks within acceptable levels of tolerance or mitigating these further.
- Calculate capital adequacy requirements by using appropriate methodologies under CRR/Regulation (EU) 575/2013 Pillar 1, produce COREP (Common Reporting Templates), and ensure on-going regulatory compliance.
- Monitor the overall credit portfolio composition and recommend any corrective actions in avoiding concentration risk.
- Participate and consult in the new product evaluation process.
- Participate and consult in the development of risk-related internal procedures.
- Participate in the Provisioning Committee and ensure the adequacy of the provisions. Participate also in the ALCO without taking part in the business decision making.
- Undertake the evaluation of the Bank's internal capital adequacy assessment process (Regulation (EU) 575/2013 CRR Pillar 2) and document it in the ICAAP document.

- Undertake the evaluation of the Bank's internal liquidity adequacy assessment process (Article 86 of Directive 2013/36/EU for "Liquidity Risk) and document it in the ILAAP document.
- Act as a liaison between the Bank and regulatory authorities with regard to matters related to CRD/CRR requirements.
- Use forward-looking tools such as scenario analysis and stress tests as part of risk identification and capital requirement calculation processes.

Internal Audit

The Internal Audit is an independent function, and reports to the Board through the Board's Audit Committee. The Internal Audit function reviews and assesses the effectiveness and completeness of the Bank's risk management framework as well as selected risk management processes including the capital adequacy calculation process, ICAAP and ILAAP. The roles and responsibilities of the Internal Audit comply with the CBC Governance Directive issued in July 2014.

Compliance Unit

The Compliance Unit establishes and implements appropriate mechanisms and activities to promote a corporate culture of compliance and integrity within the Bank to ensure that the compliance risk is being effectively managed. The policies and procedures among others mainly cover the areas of Money Laundering, Terrorism financing, acceptance of new clients, etc.

Other Departments and Committees

The other Departments and Committees actively engaged in the Bank's day-to-day risk management processes have clearly defined roles and responsibilities in risk-taking as well as managing risk. They operate under prudent banking practices and comply with the relevant regulatory requirements. In addition, effective internal controls through sound policies, procedures and processes are established to promote risk culture within the Bank and maintain the Bank's risk exposures within acceptable parameters. The Business Lines, Credit Division, and the various Approving Authorities (including the Credit Committees) operate within well-defined credit granting criteria and credit granting processes, which are in line with the Bank's policy and regulatory provisions.

4. CAPITAL BASE

The Bank's regulatory capital is comprised solely of Common Equity Tier 1 (CET1) items, which include ordinary share capital, share premium and reserves. The Bank deducts from its CET1 capital its intangible assets (computer software and goodwill), its deferred tax assets that rely on future profitability and do not arise from temporary differences, its additional valuation adjustments (AVA) as per Article 34 of the CRR, and certain investments in subsidiaries.

The Own Funds of the Bank as at 31 December 2018 are analyzed in the table below:

Own Funds analysis	2018 €000	2017 €000
Share capital	14.113	14.113
Share premium	88.555	88.555
Retained earnings/(Accumulated losses)	7.782	4.523
AFS Reserve	717	8.408
CET1 Capital before deductions/regulatory adjustments	**111.167**	**115.599**
Deductions/Regulatory Adjustments to CET1 Capital		
(-) Other Intangible assets	(1.125)	(749)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(5.034)	(3.453)
(-) Qualifying holdings outside the financial sector	(31)	(25)
(-) Excess from deduction from AT1 Capital over AT1 Capital (deducted from CET1 Capital)	-	(187)
(-) Value Adjustment due to the requirements for prudent valuation	(29)	-
(+) IFRS9 Transitional Arrangements	7.712	-
Total deductions/regulatory adjustments to CET1 Capital	**1.493**	**(4.414)**
Total Common Equity Tier 1 Capital (CET1 Capital)	**112.660**	**111.185**
Additional Tier 1 Capital (AT1 Capital)	-	-
Total Original Own Funds (Tier 1 Capital)	**112.660**	**111.185**
Additional Own Funds (Tier 2 Capital)	-	-
Tier 2 Capital	-	-
Total Own Funds (Tier 1 Capital + Tier 2 Capital)	**112.660**	**111.185**

As at 31 December 2018, the Bank was subject to a minimum Capital Adequacy Ratio ("CAD ratio") of 9,875%, consisting of the Pillar 1 minimum 8% plus the Capital Conservation Buffer (1,875%) and the Institution-specific Countercyclical Capital Buffer (calculated at 0% due to the fact that, as at 31 December 2018, the Bank was exposed only to Hong Kong and United Kingdom, which have Countercyclical Capital Buffer rate of 1.875% and 1% respectively and the exposures were insignificant). The Capital Conservation Buffer as from 1 January 2019 amounts to 2,5%, resulting to an overall minimum CAD ratio of 10,50% (assuming no change in the Institution-specific Countercyclical Capital Buffer).

SREP Process

The ECB's decision applicable from 1st January 2017, imposes a minimum total capital adequacy ratio of 11% on an individual basis and includes:

- The minimum own funds requirement of 8% to be maintained at all times in accordance with CRR Article 92(1), and
- An own funds requirement of 3% required to be held in excess of the minimum own funds requirement and to be maintained at all times in accordance with Article 16(2)(a) of Regulation (EU) No. 1024/2013, to consist entirely of Common Equity Tier 1 capital.

In addition, the Bank is subject to the overall capital requirement ("OCR") which includes, in addition to the 11% analyzed above, the other combined buffer requirement as defined in point (6) of Article 128 of Directive 2013/36/EU (i.e. Capital Conservation Buffer, Institution-specific Countercyclical Capital Buffer and Systemic Risk Buffers), to the extent that they are legally applicable. The combined buffer requirement for 2018 for the Bank includes only the Capital Conservation Buffer of 1,875% bringing the OCR to 12,875% (assuming no change in the Institution-specific Countercyclical Capital Buffer). ECB has set a Pillar II capital guidance (which is utilized as an early warning signal and does not trigger the maximum distributable amount "MDA"), the effect of which is to require that the OCR be made entirely of CET1 capital.

The Bank's CAD Ratios as at 31 December 2018 are presented below:

- Common Equity Tier 1 ratio : 14,32%
- Tier 1 ratio : 14,32%
- Capital Adequacy Ratio : 14,32%

During 2018 the Bank was in full compliance with the minimum regulatory capital requirements (Pillar I and Pillar II). The Bank following the acquisition of USB's business on 18 January 2019, is not in compliance with the minimum Overall Capital Requirement ("OCR") and the Bank developed a financial and capital plan ("Plan"), which was submitted to Central Bank of Cyprus in April 2019. One of the most important objectives of the capital plan was to ensure that the Group has sufficient resources and capital in order to meet its capital requirements and to fund the future expansion of the Group, while at the same time continue to internally resolve non-performing loans.

Share Capital

The total number of fully paid shares as at 31 December 2018 amounted to 14.113.487 shares of nominal value €1,00 each.

4.1 Reconciliation between regulatory capital (on transitional basis) with equity as presented in the Financial Statements

The following table presents the reconciliation of equity as shown in the Financial Statements of the Bank, and regulatory capital (own funds) as this is calculated for regulatory purposes.

Reconciliation between Equity and Regulatory Capital (€000)	31 December 2018	31 December 2017
Total Equity per Consolidated Financial Statements	111.793	-
Deconsolidation of Subsidiary & Reconciling amount for the investment property owner subsidiaries not included in the regulatory	(626)	
Total Equity per Financial Statements (solo)	**111.167**	**115.599**
Investment in Subsidiaries	(31)	(25)

Intangible assets	(1.125)	(749)
Deferred tax assets that rely on future profitability and do not arise from temporary differences	(5.034)	(3.453)
Reserves arising from revaluation of properties and other non CET1 eligible reserves	-	-
Value Adjustment due to the requirements for prudent valuation	(29)	-
(-) Excess from deduction from AT1 Capital over AT1 Capital (deducted from CET1 Capital)	-	(187)
IFRS9 Transitional Arrangements	7.712	-
Total Common Equity Tier 1	**112.660**	**111.185**
Additional Tier 1		
Loan Capital (after deduction of Own Additional Tier 1 instruments)	-	-
Intangible assets	-	-
Total Additional Tier 1	**-**	**-**
Total Tier 1	**112.660**	**111.185**
Tier 2		
Loan Capital (after deduction of Own Tier 2 instruments)	-	-
Tier 2 amortisation	-	-
Property revaluation reserve and other unrealized gains		
Total Tier 2	**-**	**-**
Total Own Funds	**112.660**	**111.185**

**The 31/12/2018 Financial Statements results are on a consolidated basis and they relate to AstroBank Limited ("the Bank") together with its subsidiaries ("the Group"). The 31/12/2017 Financial Statements results are on a solo basis.*

4.2 Statement of financial position as presented in the Financial Statements and in the regulatory reports

The following table presents the statement of financial position in the Financial Statements and in regulatory reports, as at 31 December 2018:

As at 31 December 2018 (€000)	Consolidated Statement of financial position based on IFRS	Deconsolidation of subsidiary	Statement of financial position per audited financial statements and regulatory reports
Assets			
Cash and balances with Central Banks	200.763		200.763
Placements with other banks	107.673		107.673

Loans and advances to customers	578.633	30	578.663
Financial Assets at fair value through profit or loss	22.909		22.909
Financial Assets through other Comprehensive Income	6.991		6.991
Financial Assets at amortized cost	371.358		371.358
Property, plant and equipment	24.488		24.488
Investment properties	75.827		75.827
Investment in Subsidiary at cost		10	10
Derivative financial instruments	63		63
Intangible Assets	1.125		1.125
Deferred tax asset	5.857		5.857
Other assets	1.778	(53)	1.725
Total assets	**1.397.465**	**(13)**	**1.397.452**
Liabilities			
Amounts due to other banks and deposits from banks	15.140		15.140
Deposits and other customer accounts	1.220.425	163	1.220.588
Derivative financial instruments	808		808
Current tax liability	108		108
Deferred tax liability	636		636
Other liabilities	48.555	(64)	48.491
Total liabilities	**1.285.672**	**99**	**1.285.771**
Equity			
Share capital	14.113		14.113
Share premium	88.555		88.555
Other Reserves	717		717
Retained Earnings	8.408	(112)	8.296
Total equity	**111.793**	(112)	**111.681**
Total liabilities and equity	**1.397.465**	**(13)**	**1.397.452**

As at 31 December 2017 (€000)	**Statement of financial position per audited financial statements and regulatory reports**
Assets	
Cash and balances with Central Banks	326.932
Placements with other banks	51.629
Receivables from debt securities	0
Loans and advances to subsidiaries	42.513
Loans and advances to customers	513.520
Available for sale financial assets	226.859
Financial Assets at fair value through profit or loss	28.035
Property, plant and equipment	24.085
Investment properties	21.621
Derivative financial instruments	32
Investment in subsidiaries	25

Intangible Assets	936
Tax receivable	0
Deferred tax asset	5.716
Other assets	2.504
Total assets	**1.244.407**
Liabilities	
Amounts due to other banks and deposits from banks	2.481
Deposits and other customer accounts	1.103.537
Derivative financial instruments	470
Current tax liability	94
Deferred tax liability	888
Other liabilities	21.338
Total liabilities	**1.128.808**
Equity	
Share capital	14.113
Share premium	88.555
Other Reserves	8.408
Accumulated losses	4.523
Total equity	**115.599**
Total liabilities and equity	**1.244.407**

Regulatory Capital

The tables below disclose the components of regulatory capital as at 31 December 2018 on both a transitional and a fully phased-in basis:

Transitional and Fully Phased-in Own Funds 31 December 2018 (€000)	Transitional basis	Transitional impact	Fully Phased-in basis
Common Equity Tier 1 Capital: instruments and reserves			
Capital instruments and the related share premium accounts	102.668	-	102.668
Retained earnings	-	-	-
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	8.499	-	8.499
Common Equity Tier 1 (CET1) Capital before regulatory adjustments	**111.167**	**-**	**111.167**
Common Equity Tier 1 (CET1) Capital: regulatory adjustments			
Intangible assets (net of related tax liability)	(1.125)	-	(1.125)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(5.034)	-	(5.034)
Other adjustments to CET1 Capital	(60)	-	(60)
IFRS9 Transitional arrangements	7.712	(7.712)	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**1.493**	**(7.712)**	**(6.219)**
Common Equity Tier 1 (CET1) Capital	**112.660**	**(7.712)**	**104.948**
Additional Tier 1 (AT1) Capital: instruments			
Capital instruments and the related share premium accounts	-	-	-
Additional Tier 1 (AT1) Capital before regulatory adjustments	**-**	**-**	**-**

Additional Tier 1 (AT1) Capital: Regulatory adjustments	**-**	**-**	**-**
Other transitional adjustments to AT1 Capital	-	-	-
Total regulatory adjustments to Additional Tier 1 (AT1) Capital	**-**	**-**	**-**
Additional Tier 1 (AT1) Capital			
Tier 1 Capital (T1 = CET1 + AT1)	**112.660**	**(7.712)**	**104.948**
Tier 2 (T2) Capital: instruments and provisions			
Capital instruments and the related share premium accounts	-	-	-
Tier 2 (T2) Capital before regulatory adjustments	**-**	**-**	**-**
Tier 2 (T2) Capital: regulatory adjustments	**-**	**-**	**-**
Other transitional adjustments to T2 capital	-	-	-
Total regulatory adjustments to Tier 2 (T2) capital	**-**	**-**	**-**
Tier 2 (T2) capital	-	-	-
Total capital (TC = T1 + T2)	**112.660**	**(7.712)**	**104.948**
Total Risk Weighted Assets	**786.789**	**(4.170)**	**782.618**
Capital Ratios and Buffers			
Common Equity Tier 1 Ratio	**14,32%**	**(0,91%)**	**13,41%**
Tier 1 Ratio	**14,32%**	**(0,91%)**	**13,41%**
Total Capital Adequacy Ratio	**14,32%**	**(0,91%)**	**13,41%**

Transitional and Fully Phased-in Own Funds 31 December 2017 (€000)	**Transitional basis**	**Transitional impact**	**Fully Phased-in basis**
Common Equity Tier 1 Capital: instruments and reserves			
Capital instruments and the related share premium accounts	102.668	-	102.668
Retained earnings	-	-	-
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	12.931	-	12.931
Common Equity Tier 1 (CET1) Capital before regulatory adjustments	**115.599**	**-**	**115.599**
Common Equity Tier 1 (CET1) Capital: regulatory adjustments			
Intangible assets (net of related tax liability)	(936)	-	(936)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(3.453)	(864)	(4.317)
Other adjustments to CET1 Capital	(25)	0	(25)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(4.414)**	(864)	(5.278)
Common Equity Tier 1 (CET1) Capital	**111.185**	**(864)**	**110.321**
Additional Tier 1 (AT1) Capital: instruments			
Capital instruments and the related share premium accounts	-	-	-
Additional Tier 1 (AT1) Capital before regulatory adjustments	**-**	**-**	**-**
Additional Tier 1 (AT1) Capital: Regulatory adjustments	**-**	**-**	**-**
Other transitional adjustments to AT1 Capital	-	-	-
Total regulatory adjustments to Additional Tier 1 (AT1) Capital	**-**	**-**	**-**
Additional Tier 1 (AT1) Capital			

Tier 1 Capital (T1 = CET1 + AT1)	**111.185**	**(864)**	**110.321**
Tier 2 (T2) Capital: instruments and provisions			
Capital instruments and the related share premium accounts	-	-	-
Tier 2 (T2) Capital before regulatory adjustments	**-**	**-**	**-**
Tier 2 (T2) Capital: regulatory adjustments	**-**	**-**	**-**
Other transitional adjustments to T2 capital	-	-	-
Total regulatory adjustments to Tier 2 (T2) capital	**-**	**-**	**-**
Tier 2 (T2) capital	-	-	-
Total capital (TC = T1 + T2)	**111.185**	**(864)**	**110.321**
Total Risk Weighted Assets	**654.024**		**654.024**
Capital Ratios and Buffers			
Common Equity Tier 1 Ratio	**17,00%**	**(0,13%)**	**16,87%**
Tier 1 Ratio	**17,00%**	**(0,13%)**	**16,87%**
Total Capital Adequacy Ratio	**17,00%**	**(0,13%)**	**16,87%**

4.4 Countercyclical Capital Buffer

In accordance with Article 130(1) of the CRDIV 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.

In this respect, the table below provides information on the geographical distribution of credit exposures relevant for the calculation of the Bank's Countercyclical Capital Buffer as at 31 December 2018. Exposures to foreign countries which did not exceed 10% of the total exposure (before Credit Conversion factor CCF), are included under the "Other" category.

Breakdown by country (€000)	General Credit Exposures	Own Funds Requirements				Own Funds requirement Weights	Countercyclical 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	620.350	48.702	-	-	**48.702**	89,49%	0,00%
United Kingdom	914	39	-	-	**39**	0,07%	1,00%
Hong Kong	101	3	-	-	**3**	0,01%	1,875%
Other	74.789	5.679	-	-	**5.679**	10,43%	0,00%
Total	**696.154**	**54.423**	-	-	**54.423**	**100,00%**	

The following table presents the amount of Institution-specific Countercyclical Capital Buffer of the Bank, as at 31 December 2018.

Amount of institution-specific countercyclical capital buffer	€000
Total Risk Exposure Amount	**786.789**
Institution-specific Countercyclical Buffer rate	0,00%
Institution-specific Countercyclical Buffer requirement	0

4.5 Template 1 (EULI1) EBA guidelines - Differences between accounting and regulatory scopes and mapping of consolidated Financial Statement Categories:

31 December 2018		Carrying values of items				
€000	Carrying values under scope of regulatory reporting	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with Central Banks	200.763	200.763			200.763	
Placements with other banks	107.673	107.673			107.673	
Loans and advances to customers	578.663	578.663			578.663	
Financial Assets at fair value through profit or loss	22.909	21.058			22.909	
Financial Assets through other Comprehensive Income	6.991	6.991			6.991	
Financial Assets at amortized cost	371.358	371.358			371.358	
Property, plant and equipment	24.488	24.488			24.488	
Investment properties	75.827	75.827			75.827	
Derivative financial instruments	63	-	63		63	
Intangible Assets	1.125	-			-	1.125
Deferred tax asset	5.857	823			823	5.034
Other assets	1.725	1.725			1.725	
Total assets	**1.397.442**	**1.389.369**	**63**		**1.390.460**	**6.159**
Liabilities						
Amounts due to other banks and deposits from banks	15.140				15.140	
Deposits and other customer accounts	1.220.588				1.220.588	
Derivative financial instruments	808		808		808	
Current tax liability	108				108	

Deferred tax liability	636				636	
Other liabilities	48.491				48.491	
Total liabilities	**1.285.771**		**808**		**1.285.771**	

31 December 2017		Carrying values of items				
€000	Carrying values under scope of regulatory reporting	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with Central Banks	326.932	326.932			326.932	
Placements with other banks	51.629	51.629			51.629	
Receivables from debt securities	-	-			-	
Loans and advances to subsidiaries	42.513	42.513			42.513	
Loans and advances to customers	513.520	513.520			513.520	
Available for sale financial assets	226.859	226.859			226.859	
Financial Assets at fair value through profit or loss	28.035	28.035			28.035	
Property, plant and equipment	24.085	24.085			24.085	
Investment properties	21.621	21.621			21.621	
Derivative financial instruments	32		32		32	
Investment in subsidiaries	25	-			-	25
Intangible Assets	936					936
Tax receivable	-	-			-	
Deferred tax asset	5.716	2.263			2.263	3.453
Other assets	2.504	2.504			2.504	
Total assets	**1.244.407**	**1.239.961**	**32**		**1.239.993**	**4.414**
Liabilities						
Amounts due to other banks and deposits from banks	2.481				2.481	
Deposits and other customer accounts	1.103.537				1.103.537	
Derivative financial instruments	470		470		470	
Current tax liability	94				94	
Deferred tax liability	888				888	
Other liabilities	21.338				21.338	
Total liabilities	**1.128.808**		**470**		**1.128.808**	

4.6 Template 2 (EULI2) Main sources of differences between regulatory exposure amounts and carrying values in financial statements:

31 December 2018 €000	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	1.397.442	1.389.369	63		1.390.460
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(1.285.771)		(808)		(1.285.771)
Total net amount under the regulatory scope of consolidation	111.671	1.389.369	(745)		104.689
Off-balance-sheet amounts	112.856	28.558			
Items not subject to capital requirements or subject to deduction from capital	(6.159)				
Liabilities not subject to capital requirements	1.285.771				
Exposure amounts considered for regulatory purposes	**1.504.139**	**1.417.927**	**(745)**	**-**	**104.689**

**The Off Balance Sheet amounts in the column "Total" do not equal the amounts reported in the "Credit risk framework" as the latter are reported after the application of the Credit Conversion Factor (CCF).*

31 December 2017 €000	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	1.244.407	1.239.961	32	-	1.239.993
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(1.128.808)	-	(470)	-	(1.128.808)
Total net amount under the regulatory scope of consolidation	115.599	1.239.961	(438)	-	111.185
Off-balance-sheet amounts	81.269	15.588			
Items not subject to capital requirements or subject to deduction from capital	(4.414)				
Liabilities not subject to capital requirements	1.128.808				
Exposure amounts considered for regulatory purposes	**1.321.262**	**1.255.549**	**(438)**	**-**	**111.185**

**The Off Balance Sheet amounts in the column "Total" do not equal the amounts reported in the "Credit risk framework" as the latter are reported after the application of the Credit Conversion Factor (CCF).*

4.7 Template IFRS 9-FL: Comparison of Institution's own funds and capital and leverage ratios with the application of transitional arrangements for IFRS 9 or analogous ECLs

	Available capital (amounts)	As at 31 December 2018
1	Common Equity Tier 1 (CET1 Capital)	112.660
2	Common Equity Tier 1 (CET1 Capital) as if IFRS9 or analogous ECLs transitional arrangements had not been applied	104.948
3	Tier 1 Capital	112.660
4	Tier 1 Capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied	104.948
5	Total Capital	112.660
6	Total Capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied	104.948
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	786.789
8	Total risk-weighted assets as if IFRS9 or analogous ECLs transitional arrangements had not been applied	782.618
9	**Capital ratios**	
10	Common Equity Tier 1 (as a percentage of risk exposure amount)	14,32%
11	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS9 or analogous ECLs transitional arrangements had not been applied	13,41%
12	Tier 1 (as a percentage of risk exposure amount)	14,32%
13	Tier 1 (as a percentage of risk exposure amount) as if IFRS9 or analogous ECLs transitional arrangements had not been applied	13,41%
14	Total capital (as a percentage of risk exposure amount)	14,32%
	Total capital (as a percentage of risk exposure amount) as if IFRS9 or analogous ECLs transitional arrangements had not been applied	13,41%
	Leverage Ratio	
15	Leverage Ratio total exposure measure	1.441.147
	Leverage Ratio total exposure measure as if IFRS9 or analogous ECLs transitional arrangements had not been applied	1.436.421
16	Leverage Ratio	7,82%
17	Leverage Ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	7,31%

Note: The actual impact of adopting IFRS 9 on 1 January 2018 on provisions of loans and advances to customers measured at amortised cost is €6,0 million or an increase of 2,9% on provisions calculated in accordance with IAS 39 and the expected credit loss recognised on the Bank's bond portfolio is €0,7 million.

5. CAPITAL REQUIREMENTS

The Bank follows the Standardised Approach ("STA") for the calculation of Credit risk and Market risk and the Basic Indicator Approach ("BIA") for Operational risk.

The Pillar I capital requirements to be maintained by the Bank as at 31 December 2018 and 2017 and the overview of RWAs were as follows:

Template 4 EU OV1 EBA Guidelines – Overview of RWAs

€000	RWAs 31/12/2018	Minimum capital requirements 31/12/2018	RWAs 31/12/2017	Minimum capital requirements 31/12/2017
Credit risk (excluding CCR)	715.289	57.223	572.133	45.770
Of which the Standardised Approach	*715.289*	*57.223*	*572.133*	*45.770*
CCR	749	60	1.284	103
Of which the Mark to Market Method	*749*	*60*	*1.284*	*103*
Market risk	3.217	257	8.063	645
Of which the Standardised Approach	*3.217*	*257*	*8.063*	*645*
Operational risk	65.475	5.238	69.046	5.524
Of which the Basic Indicator Approach	*65.475*	*5.238*	*69.046*	*5.524*
Amounts below the thresholds for deduction (subject to 250% risk weight)	2.059	165	3.498	280
Total	**786.789**	**62.943**	**654.024**	**52.322**

Note: The overall increase in RWAs was mainly driven by lending growth.

6. CREDIT RISK GAP

6.1 Definition of Credit Risk

In the ordinary course of its business the Bank is exposed to Credit Risk which is monitored through various control mechanisms. Credit Risk is the risk of financial loss to the Bank if a customer and/or other counterparty to a financial instrument fail to meet their contractual obligations and arises primarily from the Bank's loans and advances to customers and investment in debt securities.

6.2 Credit Risk Management Procedures

The Bank's Credit Risk management efforts focus on ensuring a disciplined risk culture, transparency and rational risk-taking, based on international common practices. Credit Risk management methodologies are modified to reflect the changing financial environment.

The various Credit Risk assessment methods used are revised annually or whenever deemed necessary and are adjusted according to the Bank's overall strategy and short-term and long-term objectives. The various analyses of economic sectors and sub-sectors, combined with economic forecasts, provide the guidelines for the determination of the credit policy, which is revised from time to time.

6.3 Measurement of Credit Risk and adoption of credit limits

Having as target the minimization of Credit Risk, the Bank takes into consideration the assigned collaterals and guarantees that reduce the exposure of the Bank to Credit Risk, as well as the nature and duration of the credit facility. The Bank has also set concentration

Credit Risk limits by taking into consideration the country's risk but also the economic sector in which it operates, as well as qualitative and quantitative characteristics.

At the same time, limits have been established for the approval of credit facilities and lending procedures that provide for the segregation of duties in order to ensure the objectivity, independence and monitoring of new and existing loans.

During the approval process the total Credit Risk is examined for each counterparty or group of counterparties which are related at Bank level. At the same time, any concentration is analysed and monitored on a continuous basis, with an aim to restrict potential large openings and dangerous concentrations, so that these will be in line with existing credit policy limits. Concentration of Credit Risk can arise at the level of an economic sector, a counterparty or group of counterparties, country, currency or nature of collateral. Past due advances are monitored on a continuous basis and a systematic segregation between performing and non–performing advances is carried out according to the internal policy of the Bank, which takes into account the criteria of the Central Bank of Cyprus. Significant exposures or delays are communicated to the Management which oversees the corresponding department for taking preventive or corrective measures.

Under the Risk management framework, there is an evaluation of the effects of extreme but feasible scenarios on the quality of the loan portfolio and to the available capital, through simulation of crisis conditions (stress testing). The simulations examine separately each business and individual portfolio and estimate possible increases of unsecured advances which are likely to arise due to future decreases in collateral values. The unsecured exposures are calculated based on values after the application of haircuts as defined by the Credit Policy.

6.4 Standardised Approach for Credit risk

The minimum capital requirements for Credit Risk are calculated on the level of the exposure using a factor of 8% as defined by the CRR. The following table shows the Risk Weighted Assets and the corresponding minimum capital requirements as at 31 December 2018, for each of the exposure classes, based on the Standardised Approach:

Exposure class	Risk Weighted Assets 31/12/2018 €000	Minimum Capital Requirements 31/12/2018 €000	Risk Weighted Assets 31/12/2017 €000	Minimum Capital Requirements 31/12/2017 €000
Central Governments and Central Banks	3.365	269	0	0
Regional Governments or local authorities	427	34	482	39
Multilateral Development Banks	0	0	0	0
Institutions	34.020	2.722	13.962	1.117
Corporate	218.784	17.503	113.094	9.048
Retail	27.778	2.222	22.752	1.820
Secured by mortgages on immovable property	43.255	3.460	44.886	3.591
Exposures in default	140.551	11.244	153.685	12.295
Items associated with particular high risk	132.336	10.587	106.243	8.499

Covered Bonds	6.070	486		
Equity	6.642	531	5.968	477
Other Items	104.869	8.389	115.843	9.267
Total	**718.097**	**57.448**	**576.915**	**46.153**

6.5 Credit Risk Mitigation

The Bank implements various policies and methods in order to achieve effective mitigation of Credit Risk, of which the most important are listed below:

6.5.1 Credit Risk Policy

The degree of risk associated with any credit exposure depends on many factors, including general conditions of the economy and the market, the financial position of borrowers, the amount, type and duration of exposure and the existence of collateral and guarantees. The Bank has established policies and procedures as part of the overall Credit Risk management framework. At minimum, the existing policies and procedures provide guidance to the staff on the credit evaluation/appraisal process, credit approval authorities, loan administration and documentation, roles and responsibilities of staff in the various functions of credit, the various types of tangible and non-tangible collaterals that are acceptable by the Bank for granting credit facilities, the management of problematic loans and procedures for early remedial action.

Further to the establishment of credit policies and procedures which ensure that the credit granting activities are conducted in a safe and sound manner in order to minimize Credit Risk, an integrated Credit Risk management information reporting framework is applied to closely monitor and manage portfolio Credit and Counterparty risk as well as Credit Risk concentrations.

6.5.2 Collaterals and securities

The Bank receives collaterals and/or securities for customers' loans, reducing the overall Credit Risk and ensuring the timely repayment of claims. For this purpose, it has identified and incorporated in its credit policy, eligible categories of collaterals and securities, the main ones of which are the following: Pledge on deposits, Bank letters of guarantee, Government Guarantees, Real Estate mortgages, Pledge on shares, Bonds or Treasury Bills, Stocks, Corporate and Personal guarantees, etc.

The evaluation of related collaterals and/ or securities takes place, initially at the time of the approval of the loan based on their current or fair value, and they are re-evaluated at regular intervals. The collateral coverage of the customer loan portfolio is monitored and reported quarterly.

6.5.3 Loan commitments

The Bank makes loan commitments to customers, ensuring their future financing as and when required. Loan commitments involve the same Credit Risk as loans and claims of the Bank and mainly concern letters of credit and letters of guarantee. The remaining tenor of loan commitments is analyzed and systematically monitored, as in general, loan commitments with longer tenors pose a greater risk than those with shorter tenors.

6.5.4 Credit Risk limits

The monitoring of Counterparty Credit Risk is a key part of risk management. The Bank controls and mitigates the amount and concentration of Credit Risk by applying the credit limits for 'Large Exposures to Customers and their Connected Persons' as determined by the CRR. The Bank has set up internal limits for monitoring the customer loan portfolio concentration to the various industry sectors of the economy. The limits are updated from time to time based on the Bank's risk appetite and macro-economic factor changes.

Internal rating systems

The methods for evaluation of credit rating differ depending on the type of counterparty in the following categories: central governments (purchase and holding of bonds), financial institutions, large corporates and SMEs and individuals. Individuals are evaluated based on two different methods of internal rating. The first method relates to existing customers and is based on the customers' repayment history and their general cooperation with the Bank, while the second method, which is applied to both existing and new customers, is based both on demographic factors and objective financial data (e.g. income, assets etc.). For the evaluation of large corporate and SMEs, the system used is Moody's Risk Advisor (MRA), which evaluates the financial condition of the business based on its economic and qualitative data, but also based on the economic sector it operates in. The evaluation process is performed on a regular basis or when conditions require it so that the customer' s credit rating is representative of the Credit Risk being undertaken and functions as a risk warning signal.

The customer's credit rating is used during the process of approving credit facilities and the setting of respective credit limits, for internal calculations of the probability of default as well as for monitoring changes in the quality of the loan portfolio of the Bank, with the aim to develop the appropriate strategies for avoiding undertaking increased risks.

6.6 Use of External Credit Assessments Institutions' (ECAI) ratings

The Bank uses external credit ratings from Fitch, Moody's and Standard & Poor's for the purpose of determining the risk weight of the relevant Credit Risk exposures. In the cases where the three credit ratings available for a specific exposure differ, the Bank takes the two credit ratings that generate the lowest risk weights, and then uses the worst out of the two (i.e. the one generating the highest risk weight).

For debt securities not included in the trading book, the Bank uses the issue-specific credit rating when available, and only in the absence of such a rating it reverts to the issuer/counterparty credit assessment.

Credit ratings are mapped into Credit Quality Steps ranging from 1 to 6, as per the table below:

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

The following table provides a breakdown by Credit Quality Step of the Bank's Credit Risk exposures before and after Credit Risk mitigation. The values after Credit Risk mitigation represent exposures after the deduction of specific provisions and eligible financial collateral consisting of both funded and unfunded credit protection:

Breakdown by Credit Quality Steps	Exposure values before credit risk mitigation and net of provisions €000 31/12/2018	Exposure values after credit risk mitigation and net of provisions €000 31/12/2018	Exposure values before credit risk mitigation and net of provisions €000 31/12/2017	Exposure values after credit risk mitigation and net of provisions €000 31/12/2017
CQS 1	52.658	52.658	17.755	17.755
CQS 2	16.682	16.682	38.678	38.678
CQS 3	256.534	207.140	30	30
CQS 4	60.962	60.962	1.827	1.827
CQS 5	1.000	1.000	1.000	1.000
CQS 6	8.568	8.568	9.628	9.628
Unrated/Not Applicable	1.137.717	1.103.050	1.264.879	1.232.126
Total	**1.534.121**	**1.450.060**	**1.333.797**	**1.301.044**

The Bank obtains collaterals so as to better manage the Credit Risk that arises from loans and advances. The main types of collaterals that the Bank obtains are:

- Mortgages (Commercial, Residential and other)
- Government and bank guarantees
- Deposits
- Pledging of shares and bonds
- Other encumbrances, and
- Personal and corporate guarantees.

As at 31 December 2018 the unfunded credit protection recognized by the Bank consisted entirely of Cyprus government guarantees which received 0% risk weight.

The fair value of collaterals is determined using generally accepted valuation techniques, which include market price comparisons. Valuations are performed by independent third party valuation professionals and the fair values are updated using official, published property price indices.

The Bank has robust procedures and processes to control any risk arising from the use of collaterals and from the interaction with its overall risk profile, including the risk of disruption or reduction of credit protection, valuations and collateral risk, the risk of termination of the credit protection and concentration risk.

Template 18 EU CR3 EBA guidelines – CRM Techniques – Overview

31/12/2018	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral **	Exposures secured by financial guarantees***	Exposures secured by credit derivatives
Total loans*	522.426	221.371	164.491	56.880	N/A
Total debt securities	-	-	-	-	N/A
Total exposures	**522.426**	**221.371**	**164.491**	**56.880**	**N/A**
Of which defaulted	*102.523*	*56.344*	*56.344*	-	*N/A*

Note: The overall increase in Exposures (unsecured) was mainly driven by lending growth for which the collateral received was not eligible under the CRM techniques of CRR purposes.

31/12/2017	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral **	Exposures secured by financial guarantees***	Exposures secured by credit derivatives
Total loans*	378.904	234.778	174.573	60.205	N/A
Total debt securities	-	-	-	-	N/A
Total exposures	**378.904**	**234.778**	**174.573**	**60.205**	**N/A**
Of which defaulted	*135.001*	*61.737*	*61.737*	-	*N/A*

* *Includes all customer loans, both on and off balance sheet. Excludes spot deals and derivatives.*
*** Includes mortgages on immovable property, cash, equities*
*** Unfunded protection (i.e. guarantee)*

The table below presents the total value of exposures by Asset Class and Credit Quality Step on the asset class and the credit rating of the item after the credit risk adjustments and before the credit conversion factors and credit risk mitigation:

As at 31 December 2018 Exposure classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6	Unrated/ Not Applicable	Grand Total
Central governments or central banks	-	-	198.687	43.476	-	-	243.967	**486.130**
Regional government or local authorities	-	-	-	-	-	-	4.494	**4.494**
Public sector entities	-	-	-	-	-	-	-	**-**
Multilateral development banks	52.016	-	-	-	-	-	-	**52.016**
International organisations	-	-	-	-	-	-	-	**-**
Institutions	642	16.682	56.823	5.700	1.000	8.568	20.328	**109.743**
Corporates	-	-	-	55	-	-	347.756	**347.811**
Retail	-	-	-	-	-	-	77.022	**77.022**
Secured by mortgages on immovable property	-	-	-	-	-	-	99.585	**99.585**
Exposures in default	-	-	-	-	-	-	127.374	**127.374**
Exposures associated with particularly high risk	-	-	-	-	-	-	91.605	**91.605**
Covered bonds	-	-	1.024	11.731	-	-	-	**12.755**
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	**-**
Collective investment undertakings	-	-	-	-	-	-	-	**-**
Equity	-	-	-	-	-	-	6.642	**6.642**
Other items	-	-	-	-	-	-	118.944	**118.944**
Total	**52.658**	**16.682**	**256.534**	**60.962**	**1.000**	**8.568**	**1.137.717**	**1.534.121**

As at 31 December 2017 Exposure classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6	Unrated/Not Applicable	Grand Total
Central governments or central banks	-	-	-	-	-	-	512.990	**512.990**
Regional government or local authorities	-	-	-	-	-	-	5.070	**5.070**
Public sector entities	-	-	-	-	-	-	-	**-**
Multilateral development banks	16.758	-	-	-	-	-	-	**16.758**
International organisations	-	-	-	-	-	-	-	**-**
Institutions	997	38.678	30	1.408	1.000	9.628	8.153	**59.894**
Corporates	-	-	-	419	-	-	240.495	**240.914**
Retail	-	-	-	-	-	-	63.950	**63.950**
Secured by mortgages on immovable property	-	-	-	-	-	-	101.688	**101.688**
Exposures in default	-	-	-	-	-	-	131.102	**131.102**
Exposures associated with particularly high risk	-	-	-	-	-	-	71.629	**71.629**
Covered bonds	-	-	-	-	-	-	-	**-**
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	**-**
Collective investment undertakings	-	-	-	-	-	-	-	**-**
Equity	-	-	-	-	-	-	5.968	**5.968**
Other items	-	-	-	-	-	-	123.834	**123.834**
Total	**17.755**	**38.678**	**30**	**1.827**	**1.000**	**9.628**	**1.264.879**	**1.333.797**

Template 19 EU CR4 EBA Guidelines – Standardised approach – Credit Risk Exposure and CRM effects

As at 31 December 2018 Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount*	Off-balance-sheet amount	On-balance-sheet amount*	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	486.130	-	543.010	-	3.365	1%
Regional government or local authorities	3.950	544	2.130	2	426	20%
Public sector entities	-	-	-	-	-	N/A
Multilateral development banks	52.016	-	52.016	-	-	0%
International organisations	-	-	-	-	-	N/A
Institutions	109.602	140	60.208	41	34.020	56%
Corporates	279.012	68.799	207.665	15.199	218.784	98%
Retail	44.890	32.132	33.228	6.482	27.778	70%
Secured by mortgages on immovable property	86.791	12.794	86.200	805	43.256	50%
Exposures in default	118.245	9.130	117.352	2.658	140.551	117%
Exposures associated with particularly high risk	86.064	5.541	85.454	2.770	132.336	150%
Covered bonds	12.755	-	12.755	-	6.070	48%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	N/A
Collective investment undertakings	-	-	-	-	-	N/A
Equity	6.642	-	6.642	-	6.642	100%
Other items	118.944	-	118.944	-	104.869	88%
Total	**1.405.041**	**129.080**	**1.325.604**	**27.957**	**718.097**	**53%**

Note: The overall increase in Exposures and RWAs was mainly driven by lending growth.

As at 31 December 2017 Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount*	Off-balance-sheet amount	On-balance-sheet amount*	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	512.990	-	573.194	-	-	0%
Regional government or local authorities	4.502	568	2.411	-	482	20%
Public sector entities	-	-	-	-	-	N/A
Multilateral development banks	16.758	-	16.758	-	-	0%
International organisations	-	-	-	-	-	N/A
Institutions	59.819	74	59.819	15	13.962	23%
Corporates	182.688	58.225	108.596	7.473	113.094	97%
Retail	36.242	27.708	26.397	5.794	22.752	71%
Secured by mortgages on immovable property	91.822	9.866	91.272	192	44.886	49%
Exposures in default	127.607	3.495	127.137	1.503	153.684	119%
Exposures associated with particularly high risk	71.366	264	70.565	263	106.244	150%
Covered bonds	-	-	-	-	-	N/A
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	N/A
Collective investment undertakings	-	-	-	-	-	N/A
Equity	5.968	-	5.968	-	5.968	100%
Other items	123.033	802	123.034	-	115.843	94%
Total	**1.232.795**	**101.002**	**1.205.151**	**15.240**	**576.915**	**47%**

The table below presents the breakdown by asset class and risk weight (Template 20 EU CR5 EBA guidelines – Standardised approach)

As at 31 December 2018 (€000) Exposure classes	Risk weight										Total	Of which unrated
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Deducted**		
Central governments or central banks	536.280	-	-	6.730	-	-	-	-			543.010	300.847
Regional government or local authorities	-	2.132	-	-	-	-	-	-			2.132	2.132
Public sector entities	-	-	-	-	-	-	-	-			-	-
Multilateral development banks	52.016	-	-	-	-	-	-	-			52.016	-
International organisations	-	-	-	-	-	-	-	-			-	-
Institutions	-	41.154	-	-	-	5.709	13.387	-			60.250	20.300
Corporates	-	-	-	-	-	222.864	-	-			222.864	222.809
Retail	-	-	-	-	39.711	-	-	-			39.711	39.710
Secured by mortgages on immovable property	-	-	56.601	10.042	3.197	17.165	-	-			87.005	87.005
Exposures in default	-	-	-	-	-	78.927	41.083	-			120.010	120.010
Exposures associated with particularly high risk	-	-	-	-	-	-	88.224	-			88.224	88.224
Covered bonds	-	1.024	-	11.731	-	-	-	-			12.755	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-			-	-
Collective investment undertakings	-	-	-	-	-	-	-	-			-	-
Equity	-	-	-	-	-	6.642	-	-			6.642	6.642
Other items	12.443	3.585	-	-	-	102.093	-	823			118.944	118.944
Total	**600.739**	**47.895**	**56.601**	**28.503**	**42.908**	**433.400**	**142.694**	**823**	**-**	**-**	**1.353.563**	**1.006.623**

As at 31 December 2017 (€000) Exposure classes	Risk weight										Total	Of which unrated
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Deducted**		
Central governments or central banks	573.194	-	-	-	-	-	-	-			573.194	573.194
Regional government or local authorities	-	2.411	-	-	-	-	-	-			2.411	2.411
Public sector entities	-	-	-	-	-	-	-	-			-	-
Multilateral development banks	16.758	-	-	-	-	-	-	-			16.758	-
International organisations	-	-	-	-	-	-	-	-			-	-
Institutions	-	57.214	-	1.408	-	6	1.206	-			59.834	8.129
Corporates	-	-	-	-	-	116.070	-	-			116.070	115.651
Retail	-	-	-	-	32.191	-	-	-			32.191	32.191
Secured by mortgages on immovable property	-	-	49.727	24.702	2.676	14.359	-	-			91.464	91.464
Exposures in default	-	-	-	-	-	78.551	50.089	-			128.640	128.640
Exposures associated with particularly high risk	-	-	-	-	-	-	70.829	-			70.829	70.829
Covered bonds	-	-	-	-	-	-	-	-			-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-			-	-
Collective investment undertakings	-	-	-	-	-	-	-	-			-	-
Equity	-	-	-	-	-	5.968	-	-			5.968	5.968
Other items	10.594	2.109	-	-	-	102.948	5.984	1.399			123.034	123.034
Total	**600.546**	**61.734**	**49.727**	**26.110**	**34.867**	**317.902**	**128.108**	**1.399**	**-**	**-**	**1.220.393**	**1.151.511**

As at 31 December 2018 Exposure class	Funded Credit Protection €000	Unfunded Credit Protection €000
Central Governments and Central Banks	-	-
Regional Governments or local authorities	628	1.560
Multilateral Development Banks	-	-
Institutions	49.393	-
Corporate	16.774	55.320
Retail	15.164	-
Secured by mortgages on immovable property	597	-
Exposures in default	895	-
Items associated with particular high risk	610	-
Equity	-	-
Other Items	-	-
Total	**84.061**	**56.880**

As at 31 December 2017 Exposure class	Funded Credit Protection €000	Unfunded Credit Protection €000
Central Governments and Central Banks	-	-
Regional Governments or local authorities	661	1.798
Multilateral Development Banks	-	-
Institutions	-	-
Corporate	16.545	58.406
Retail	13.434	-
Secured by mortgages on immovable property	843	-
Exposures in default	470	-
Items associated with particular high risk	801	-
Equity	-	-
Other Items	-	-
Total	**32.754**	**60.204**

6.7 Risk of impairment

Past due items

Past due loans are those accounts with arrears or in excess of authorized credit limits.

All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/ segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's "incurred loss" model with a forward looking "expected credit loss model". This requires considerable judgement over how changes in economic factors affect expected credit losses (ECLs), which is determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:
- financial assets that are measured at amortised cost or FVOCI;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

Impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from possible default events over the expected life of the financial instrument (lifetime ECL) in the event of a significant increase in Credit Risk since initial recognition, otherwise the allowance for ECL is based from possible default events within the next 12 months (12 month ECL). For financial assets that are purchased or originated credit impaired (POCI) an impairment allowance is required resulting from possible default events over the expected life of the financial instrument (lifetime ECL).

The Group groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

- **Stage 1:** Financial assets which have not had a significant increase in Credit Risk since initial recognition are considered to be Stage 1 and 12-month ECL is recognised.

- **Stage 2:** Financial assets that are considered to have experienced a significant increase in Credit Risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised.

- **Stage 3:** Financial assets which are considered to be credit-impaired (refer to Note 2 of the AstroBank Group's Consolidated Financial Statements for financial year 2018 on how the Group defines credit-impaired and default) and lifetime losses are recognised.

- **POCI:** Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses.

The Group calculates 12-month ECLs and lifetime ECLs either on an individual basis or on a collective basis. The individual assessment is performed for individually significant Stage 3 assets. A risk-based approach is used on the selection criteria of the individually assessed population NPE or forborne NPE exposures above a certain amount. The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (i.e. the realisable value of the collateral, the business prospects of the customer).

All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/ segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type.

Key impairment concepts

1. Significant Credit Risk increase for loans and advances to customers

The Group uses staging criteria to determine whether the Credit Risk on a particular financial instrument has increased significantly since initial recognition. The criteria for determining whether Credit Risk has increased significantly include delinquency and forbearance measures. Facilities with at least two instances of 30 days past due over a year are classified in Stage 2. The Group considers, as a backstop criterion, that a significant increase in the Credit Risk occurs when contractual payments are more than 30 days past due. Loans that meet this condition are classified in Stage 2.

2. Significant Credit Risk increase for financial instruments other than loans and advances to customers

Low Credit Risk simplification is adopted for debt security instruments, loans and advances to banks and balances with Central banks with external credit ratings that are rated as investment grade. For debt security instruments and balances with Central banks and placements with other banks with external credit ratings that are rated as investment grade, the assessment of low Credit Risk is based on the external credit rating. For debt securities and balances with Central banks and placements with other banks which are below investment grade, the low Credit Risk simplification does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date. Significant deterioration in Credit Risk is considered to have occurred when the rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investment grade to speculative and then to highly speculative). All financial assets are transferred out of Stage 2 into Stage 1, if their Credit Risk is no longer considered to be significantly increased since initial recognition based on the assessments described above.

3. Credit impaired and definition of default

Exposures that meet the non-performing exposure (NPE) definition as per European Banking Authority (EBA) standards are considered to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for Credit Risk management purposes. According to the EBA Technical standards in 2014 with respect to non-performing and forborne exposures which were adopted by the European Commission through the Commission implementation Regulation EU 2015/1278 and CBC Directive on Supervisory reporting on forbearance and non-performing exposures, non-performing exposures are defined as those exposures that satisfy one of the following conditions:

- The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due;
- Exposures in respect of which a default is considered to have occurred in accordance with Article 178 of the Capital Requirement Regulation (CRR) 575/2013;
- Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due.

An exposure is considered as Forborne (Restructured) in accordance with the EBA definition.

When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on-balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing. Exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, only when all of the following conditions are met:

- The extension of forbearance measures does not lead to the recognition of impairment or default.

- One year has passed since the forbearance measures were extended. In case of grace period loans, the exposure can exit the NPE status one year after the end of the grace period.

- Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

- No unlikely-to-pay criteria exist for the debtor.

- The debtor has made post-forbearance payments of a not-insignificant amount of capital (different capital thresholds apply according to the restructuring type). At the time an account ceases to be considered as NPE it exits Stage 3. If the loan is 30 days past due twice over the last 12 months it is transferred to Stage 2, otherwise it is transferred to Stage 1. Debt securities, placements with other banks and balances with Central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal.

Scenarios and forward-looking inputs

The Group uses reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated for three macroeconomic scenarios, baseline, pessimistic and optimistic and the output is the weighted average ECL based on the assigned probability of each scenario. Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Forward looking information embedded in the PDs relates to GDP growth, unemployment rates, industrial production, commercial price indices and residential price indices. This process involves consideration of external actual and forecast information provided by the Central Bank of Cyprus, Moody's Analytics and other providers of macroeconomic forecasts. In regards to the LGD, the forward looking information is incorporated via the property indices for the types of properties (residential and commercial). Predicted relationships between the key indicators and default and loss rates on the portfolios of financial assets have been developed based on an analysis of historical data over the past 6 years. Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date.

<u>5. Inputs into measurement of ECLs</u>

The key inputs into the measurement of ECLs are the term structures of the following variables which are derived from statistical models and other historical data:

<u>a. Probability of default (PD)</u>

PD represents the probability an exposure has to default and is calculated based on statistical models using a combination of Division, customer type and product type criteria and taking into consideration the Group's historical default rates and forward looking information based on macroeconomic inputs. For the purposes of the PD estimation the Group uses the EBA definition of NPE as its definition of default. As a result the Group has applied a methodology that suits the Group's portfolio, complexity and data availability. The Group's IFRS 9 PD estimation approach consists of the following key steps:

- Use historic default rates to estimate the Through The Cycle ("TTC") probabilities of default;
- Establish a model linking the default rates to macroeconomic variables thus, mapping external market dynamics onto Group's internal credit risk parameters, i.e. to fit a distribution function to the observed cumulative default rates using a transformation of the Weibull distribution;
- Obtain the point in time (PIT) PDs by adjusting the TTC conditional PD profile from step 1 using the forecasted default rate established in step 2 for years 1-3 and forecasted for the default rates based on appropriate long term assumptions with regards to economic activity. PDs are estimated on a number of observation basis in light of the limited number of observations. For Legal

Entities the PDs are estimated at a debtor level and at a facility level for all other segments.

b. Loss given default (LGD)
LGD represents an estimate of the loss if default occurs at a given time. It is usually expressed as a percentage of the EAD. It takes into account parameters such as the collateral value which is discounted to the present value determining the amount of the expected shortfall. The structure of the LGD model considers:

- Curing where the probability of cure model was derived based on historical observations.
- Non-curing including cash recovery or realisation of collaterals either voluntarily, i.e. debt for asset swap, or through forced sale, auctions and foreclosure and receivership.

c. Exposure at default (EAD)
EAD represents the expected exposure in the event of a default during the life of a financial instrument. The EAD methodology is differentiated in the following categories: Revolving and Non-Revolving exposures. In case of Revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. The credit conversion factor model is derived based on historical data from the last 6 years. For Non-Revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In regards to the credit-impaired exposures, the EAD is equal to the on-balance sheet amount as at the reporting date. ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

6. ECL measurement period
The period for which lifetime losses are determined is based on the contractual life of a financial instrument. For revolving loans, the period for which lifetime losses are determined is set at 12 months representing the next review date of the facility, at which the Group has the right to limit or to cancel the exposure. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

7. Purchased or originated credit impaired financial assets (POCI)
POCI financial assets are recorded at fair value on initial recognition. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For POCI financial assets, the Group only recognises the cumulative changes in lifetime ECL since initial recognition in the loss allowance. POCI remain a separate category until derecognition.

The following table presents the movement of accumulated impairment losses on the value of loans and advances, debt securities and equity securities - *Template 16 EU CR2- A EBA guidelines - Changes in the stock of general and specific credit risk adjustments:*

As at 31 December 2018 Movement of accumulated Expected Loss €000	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	2.889	346	180.076	26.781	210.093
Impact adopting IFRS 9 at 1 January 2018	897	659	3.778	477	5.811
Restated balance at 1 January 2018	**3.786**	**1.005**	**183.854**	**27.258**	**215.904**
Interest (provided) not recognised in the income statement			14.425	2.061	16.486
Write offs			(48.905)	(1.967)	(50.872)
Decrease due to derecognition	(706)	(99)	(3.076)	(8)	(3.888)
Transfer to Stage 1	600	(462)	(138)		-
Transfer to Stage 2	(127)	3.439	(3.310)		-
Transfers to Stage 3	(51)	(122)	173		-
Change due to change in Credit Risk (net)	855	(1.583)	3.121	539	2.934
Exchange difference and other movement	(18)	3	634	(73)	544
31 December 2018	**4.339**	**2.181**	**146.778**	**27.810**	**181.108**
Individually assessed		237	116.818	14.951	132.006
Collectively assessed	4.339	1.944	29.960	12.859	49.102
	4.339	**2.181**	**146.778**	**27.810**	**181.108**

As at 31 December 2017 Movement of accumulated impairment	Individual impairment €000	Provisions to cover credit risk resulting from commitments and guarantees €000	Total €000
Balance as at 1 January 2017	210.427	848	211.275
Write-offs	(20.424)	0	(20.424)
Provision charge for the year	28.539	516	29.055
Provision recoveries and other adjustments	(7.472)	(916)	(8.388)
Foreign Exchange differences	(977)	0	(977)
Balance as at 31 December 2017	210.093	448	210.541
Collective impairment	11.195	-	11.195

6.8 Average exposure during 2018 analysed by asset class

Template 7 (EU CRB-B) EBA guidelines – Total and average net amount of exposures:

As at 31 December 2018	Net value of exposures at the end of the period €000	Average net exposures over the period €000
Central governments or central banks	486.130	549.088
Regional governments or local authorities	4.494	4.652
Public sector entities	-	-
Multilateral development banks	52.016	50.583
International organisations	-	-
Institutions	109.742	78.869
Corporates	347.811	301.509
Of which: SMEs	*170.645*	*140.868*
Retail	77.022	75.654
Of which: SMEs	*28.183*	*27.764*
Secured by mortgages on immovable property	99.585	93.070
Of which: SMEs	*35.401*	*28.429*
Exposures in default	127.375	131.809
Items associated with particularly high risk	91.605	75.191
Covered bonds	12.755	10.233
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	6.642	6.320
Other items	118.944	121.033
Total Standardised Approach	***1.534.121***	***1.498.012***

Note: The overall increase in Exposures was mainly driven by lending growth.

As at 31 December 2017	Net value of exposures at the end of the period €000	Average net exposures over the period €000
Central governments or central banks	512.990	446.851
Regional governments or local authorities	5.070	5.217
Public sector entities	-	-
Multilateral development banks	16.758	64.608
International organisations	-	-
Institutions	59.894	89.265
Corporates	240.914	248.039
Of which: SMEs	*122.358*	*137.927*
Retail	63.950	58.343
Of which: SMEs	*19.545*	*19.119*
Secured by mortgages on immovable property	101.688	105.415
Of which: SMEs	*41.300*	*38.361*
Exposures in default	131.102	146.438
Items associated with particularly high risk	71.629	77.950

Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	5.968	5.958
Other items	123.834	104.498
Total Standardised Approach	***1.333.797***	***1.352.582***

6.9 Total original exposure, net of provisions, analysed by country of counterparties' residence/incorporation

Template 8 EU CRB-C EBA guidelines – Geographical breakdown of exposures (Other countries include immaterial exposures <=€2m in total for each country. The immaterial countries are listed in template 8 as per section 6.9)

Exposures per Asset Class per Country of incorporation of Counterparty	Belgium €000	Cyprus €000	Greece €000	United Kingdom €000	Lebanon €000	Russia €000	United States €000	British Virgin Islands €000	Italy €000	Hong Kong €000	France €000	Marshal Islands €000	Portugal €000	Spain €000	Other €000	Total €000
Central Governments and Central Banks	-	375.155	37.990	-	-	6.730	-	-	39.422	-	-	-	26.833	-	-	486.130
Regional Governments or local authorities	-	4.494	-	-	-	-	-	-	-	-	-	-	-	-	-	4.494
Multilateral Development Banks	52.016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	52.016
Institutions	16.182	6.333	9.362	50.368	-	5.289	4.141	-	-		10.176	-	-	5.700	2.191	109.742
Corporate	-	287.745	13.470	83	27.266	55	-	2.292	-	7.360	-	9.528	-	-	12	347.811
Retail	3	74.229	1.387	91	194	209	128	21	-		-	-	-	-	760	77.022
Secured by mortgages on immovable property	-	97.641	49	615	128	344	-	-	-	108	-	-	-	-	700	99.585
Exposures in default	-	126.521	4	175	-	29	639	-	-	-	-	-	-	-	7	127.375
Items associated with particular high risk	-	82.881	-	-	-	-	8.724	-	-	-	-	-	-	-	-	91.605
Covered Bonds	-	-	12.755	-	-	-	-	-	-	-	-	-	-	-	-	12.755
Equity	-	6.642	-	-	-	-	-	-	-	-	-	-	-	-	-	6.642
Other Items	-	118.944	-	-	-	-	-	-	-	-	-	-	-	-	-	118.944
Total	**68.201**	**1.180.585**	**75.017**	**51.332**	**27.588**	**12.656**	**13.632**	**2.313**	**39.422**	**7.468**	**10.176**	**9.528**	**26.833**	**5.700**	**3.670**	**1.534.121**

Note: The overall increase in Exposures was mainly driven by lending growth

As at 31 December 2017 Exposures per Asset Class per Country of incorporation of Counterparty	Belgium €000	Cyprus €000	Greece €000	United Kingdom €000	Lebanon €000	Russia €000	United States €000	British Virgin Islands €000	Other €000	Total €000
Central Governments and Central Banks	-	452.708	19.950	-	-	-	16.748	-	23.584	**512.990**
Regional Governments or local authorities	-	5.070	-	-	-	-	-	-	-	**5.070**
Multilateral Development Banks	16.758	-	-	-	-	-	-	-	-	**16.758**
Institutions	38.101	1.029	9.628	45	-	1.409	8.066	-	1.616	**59.894**
Corporate	-	219.989	2.677	75	4.820	421	3	12.908	21	**240.914**
Retail	3	61.106	1.252	107	210	265	144	21	842	**63.950**
Secured by mortgages on immovable property	-	99.467	52	648	133	381	134	-	873	**101.688**
Exposures in default	-	130.343	44	73	-	42	599	-	1	**131.102**
Items associated with particular high risk	-	71.629	-	-	-	-	-	-	-	**71.629**
Equity	-	5.968	-	-	-	-	-	-	-	**5.968**
Other Items	-	117.851	5.983	-	-	-	-	-	-	**123.834**
Total	**54.862**	**1.165.160**	**39.586**	**948**	**5.163**	**2.518**	**25.694**	**12.929**	**26.937**	**1.333.797**

6.10 Total original exposure, net of provisions, analysed by industry segment

Template 9 EU CRB-D EBA guidelines – Concentration of exposures by industry or counterparty types

As at 31 December 2018 '€000	Accommodation and Food Services Activities	Administrative and support Service Activities	Construction	Education	Electricity. Gas. Steam and Air-conditioning supply	Financial and insurance Activities	Human health and social work activities	Manufacturing	Mining and quarrying	Private individuals	Professional. Scientific and technical Activities	Public Administration and defense; Compulsory social security	Real Estate Activities	Transport and Storage	Water supply. sewerage. waste management and remediation activities	Wholesale and retail trade. repair of motor vehicles and motorcycles	Other	Total
Central governments or central banks	-	-	-	-	-	100.494	-	-	-	-	-	200.900	-	-	-	-	184.736	486.130
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	4.494	-	-	-	-	-	4.494
Multilateral Development Banks	-	-	-	-	-	52.016	-	-	-	-	-	-	-	-	-	-	-	52.016
Institutions	-	-	-	-	-	109.738	-	-	-	-	-	-	-	-	-	-	3	109.741
Corporates	23.073	4.225	16.567	2.524	-	56.782	1.347	36.734	12.585	4.910	10.351	55.320	38.831	27.465	-	56.438	659	347.811
Of which SME	*6.260*	*4.225*	*5.261*	-	-	*36.492*	*1.347*	*23.705*	*12.585*	*4.910*	*6.539*	-	*32.451*	*10.880*	-	*25.471*	*519*	*170.645*
Retail	1.083	483	3.970	295	54	551	510	2.907	-	47.616	2.397	-	3.693	808	8	11.969	678	77.022
Of which SME	*1.037*	*418*	*3.838*	*280*	*49*	*269*	*366*	*2.715*	-	*533*	*2.201*	-	*3.585*	*774*	*8*	*11.524*	*586*	*28.183*
Secured by mortgages on immovable property	12.632	126	418	-	168	1.087	3.416	12.033	-	53.523	760	-	2.674	999	-	9.740	2.010	99.586
Of which SME	*12.632*	*126*	*156*	-	*168*	*1.087*	*3.416*	*4.160*	-	*385*	*760*	-	*2.258*	*999*	-	*8.681*	*577*	*35.401*
Exposures in default	6.506	1.356	32.600	4	2.731	14.489	770	784	-	43.823	343	-	6.374	4.335	-	11.793	1.467	127.375

Items associated with particular high risk	-	-	56.416	-	-	21.890	-	1.129	-	3.828	77	-	7.665	-	-	343	257	91.605
Covered Bonds	-	-	-	-	-	4.601	-	-	-	-	-	-	-	-	-	-	8.154	12.755
Equity	-	-	-	-	-	-	-	-	-	6.603	-	-	-	-	-	-	39	6.642
Other items	-	-	-	-	-	-	-	-	-	-	-	-	75.828	-	-	-	43.116	118.944
Total	4 3.294	6.190	109.971	2.823	2.953	361.648	6.043	53.587	12.585	160.303	13.928	260.714	135.065	33.607	8	90.283	241.119	1.534.121

As at 31 December 2017 €000	**Accommodation and Food Services Activities**	**Administrative and support Service Activities**	**Construction**	**Education**	**Electricity, Gas, Steam and Air-conditioning supply**	**Financial and insurance Activities**	**Human health and social work activities**	**Manufacturing**	**Mining and quarrying**	**Private individuals**	**Professional, Scientific and technical Activities**	**Public Administration and defense; Compulsory social security**	**Real Estate Activities**	**Transport and Storage**	**Water supply, sewerage, waste management and remediation activities**	**Wholesale and retail trade, repair of motor vehicles and motorcycles**	**Other**	**Total**
Central governments or central banks	-	-	-	-	-	47.728	-	-	-	-	-	150.170	-	-	-	-	315.092	512.990
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	5.070	-	-	-	-	-	5.070
Multilateral Development Banks	-	-	-	-	-	16.758	-	-	-	-	-	-	-	-	-	-	-	16.758
Institutions	-	-	-	-	-	59.894	-	-	-	-	-	-	-	-	-	-	-	59.894
Corporates	9.647	2.010	21.649	4.943	600	7.876	1.555	26.220	16.370	3.066	8.277	-	15.397	4.504	58.406	58.022	2.372	240.914
Of which SME	*9.647*	*2.010*	*11.016*	*2.136*	*600*	*7.036*	*1.555*	*16.469*	*16.370*	*2.799*	*7.027*	-	*11.055*	*1.377*	-	*31.284*	*1.977*	*122.358*

Retail	834	482	1.394	187	1.313	286	338	3.267	-	44.415	993	-	3.181	749	8	5.530	973	63.950
Of which SME	*834*	*482*	*1.394*	*187*	*1.313*	*286*	*333*	*3.267*	-	*65*	*993*	-	*3.181*	*749*	*8*	*5.480*	*973*	*19.545*
Secured by mortgages on immovable property	687	129	8.019	1.499	324	3.371	2.827	12.028	1.041	52.596	676	-	2.564	8.595	-	6.265	1.067	101.688
Of which SME	*687*	*129*	*8.019*	*1.499*	*324*	*3.371*	*2.827*	*12.028*	*1.041*	*2.312*	*676*	-	*2.564*	*42*	-	*5.212*	*569*	*41.300*
Exposures in default	4.704	1.454	12.987	-	2.344	18.481	933	1.584	2.603	47.001	266	-	13.454	4.852	1	19.321	1.117	131.102
Items associated with particular high risk	-	-	58.873	-	-	253	-	-	-	4.093	-	-	8.410	-	-	-	-	71.629
Equity	-	-	-	-	-	5.929	-	-	-	-	-	-	-	-	-	-	39	5.968
Other items	-	-	-	-	-	5.984	-	-	-	-	-	-	43.314	-	-	-	74.536	123.834
Total	**15.872**	**4.075**	**102.922**	**6.629**	**4.581**	**166.560**	**5.653**	**43.099**	**20.014**	**151.171**	**10.212**	**155.240**	**86.320**	**18.700**	**58.415**	**89.138**	**395.196**	**1.333.797**

Note: The overall increase in Exposures was mainly driven by lending growth

6.11 Original Exposure values, net of provision, by residual maturity Template 10 EU CRB-E EBA guidelines – Maturity of exposures

As at 31 December 2018 Exposure Class	< 1 month €000	1 – 3 months €000	3 – 12 months €000	1 – 5 years €000	> 5 years €000	No maturityNo Maturity €000	Total €000
Central Governments and Central Banks	202.992	20.654	66.892	81.451	114.141	-	**486.130**
Regional Governments or local authorities	165	10	-	-	4.319	-	**4.494**
Multilateral Development Banks	-	-	52.016	-	-	-	**52.016**
Institutions	92.721	17	54	5.739	5.225	5.986	**109.742**
Corporate	69.935	15.058	5.888	18.394	238.536	-	**347.811**
Retail	22.508	2.801	6.108	16.993	28.612	-	**77.022**
Secured by mortgages on immovable property	18.966	78	341	4.272	75.928	-	**99.585**
Exposures in default	16.169	2.952	8.085	22.940	77.229	-	**127.375**
Items associated with particular high risk	20.129	-	123	23.138	39.425	8.790	**91.605**
Covered Bonds	-	-	-	12.755	-	-	**12.755**
Equity	6.642	-	-	-	-	-	**6.642**
Other Items	-	-	-	-	-	118.944	**118.944**
Total	**450.227**	**41.570**	**139.507**	**185.682**	**583.415**	**133.720**	**1.534.121**

Note: The overall increase in Exposures was mainly driven by lending growth

As at 31 December 2017 Exposure Class	< 1 month €000	1 – 3 months €000	3 – 12 months €000	1 – 5 years €000	> 5 years €000	No maturity €000	Total €000
Central Governments and Central Banks	311.492	30.202	9.509	28.808	132.979	-	**512.990**
Regional Governments or local authorities	200	-	-	-	4.870	-	**5.070**
Multilateral Development Banks	-	16.758	-	-	-	-	**16.758**
Institutions	59.864	-	-	-	30	-	**59.894**
Corporate	42.291	12.812	7.761	21.481	156.569	-	**240.914**
Retail	19.162	1.165	4.965	14.501	24.157	-	**63.950**
Secured by mortgages on immovable property	16.208	9	3.157	6.084	76.230	-	**101.688**
Exposures in default	11.243	536	6.306	15.199	97.818	-	**131.102**
Items associated with particular high risk	21.817	-	325	10.022	39.465	-	**71.629**
Equity	-	-	-	-	-	5.968	**5.968**
Other Items	-	-	-	-	-	123.834	**123.834**
Total	**482.277**	**61.482**	**32.023**	**96.095**	**532.118**	**129.802**	**1.333.797**

6.12 Counterparty Credit Risk (CCR)

Derivatives

As at 31 December 2018 the Bank had open positions in derivative contracts which comprised of FX Swaps. The Bank used the Mark-to-Market method to calculate its exposure to the long positions in derivatives for capital requirements purposes. Details on these contracts and on the results of the Mark-to-Market calculations are shown in the table below:

As at 31 December 2018 at 31 December 2018 Derivative type	Positive fair value €000	Negative fair value €000	Notional amount €000	Exposure before CRM €000	Exposure after CRM €000	RWAs pre SME factor €000	Capital Req. €000
FX Swaps	55	-153	68.920	745	745	749	60
Total	**55**	**-153**	**68.920**	**745**	**745**	**749**	**60**

As at 31 December 2017 Derivative type	Positive fair value €000	Negative fair value €000	Notional amount €000	Exposure before CRM €000	Exposure after CRM €000	RWAs pre SME factor €000	Capital Req. €000
FX Swaps	19	(491)	97.393	993	993	1.284	103
Total	**19**	**(491)**	**97.393**	**993**	**993**	**1.284**	**103**

Repo-style transaction

The Bank also had a repo-style transaction calculated using the comprehensive method and after applying standard supervisory volatility haircuts.

31-Dec-18	a Gross positive fair value or net carrying amount €000	b Netting benefits €000	c Netted current credit exposure €000	d Collateral held €000	e Net credit exposure €000	RWAs pre & post SME factor €000	Capital Req. €000
SFTs	50.006	-	50.006	49.393	613	123	10
Total	**50.006**	**-**	**50.006**	**49.393**	**613**	**123**	**10**

6.13 Wrong Way Risk

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, i.e. changes in market rates have an adverse impact on the probability of default of a counterparty. This risk is not currently measured as it is not considered as significant.

6.14 Credit quality of exposures by exposure class and instrument
Template 11 EU CR1-A EBA guidelines

As at 31 December 2018 €000	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central governments or central banks		486.130	-	-	-	-	486.130
Regional governments or local authorities		4.501	7	-	-	-	4.494
Multilateral development banks		52.016	-	-	-	-	52.016
Institutions		109.742	-	-	-	-	109.742
Corporates		351.249	3.438	-	-	-	347.811
Of which: SMEs		*172.864*	*2.219*	-	-	-	*170.645*
Retail		78.290	1.268	-	17	-	77.022
Of which: SMEs		*28.301*	*118*	-	-	-	*28.183*
Secured by mortgages on immovable property		100.196	611	-	-	-	99.585
Of which: SMEs		*35.748*	*347*	-	-	-	*35.401*
Exposures in default	253.468	-	126.093	-	27.416	-	127.375
Items associated with particularly high risk	73.331	61.139	42.865	-	23.848	-	91.605
Covered Bonds		12.755	-	-	-	-	12.755
Equity exposures		6.642	-	-	-	-	6.642
Other items		118.944	-	-	-	-	118.944
Total standardised approach	***326.799***	***1.381.604***	***174.282***	**-**	***51.281***	-	***1.534.121***
Of which: Loans	317.369	471.177	173.688	-	-	-	614.858
Of which: Debt securities	-	-	-	-	-	-	-
Of which: Off-balance-sheet exposures	9.431	120.242	594	-	-	-	129.079

Note: The overall increase in Exposures was mainly driven by lending growth

As at 31 December 2017 €000	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks		512.990	-	-			512.990
Regional governments or local authorities		5.088	18	-			5.070
Multilateral development banks		16.758	-	-			16.758
Institutions		59.894	-	-			59.894
Corporates		243.716	2.802	-			240.914
Of which: SMEs		*123.662*	*1.304*	-			*122.358*
Retail		66.003	2.053	-	141		63.950
Of which: SMEs		*19.719*	*174*	-			*19.545*
Secured by mortgages on immovable property		102.317	629	-			101.688
Of which: SMEs		*41.506*	*206*	-			*41.300*
Exposures in default	274.864	-	143.762	-	11.803		131.102
Items associated with particularly high risk	126.411	5.993	60.775	-	4.946		71.629
Equity exposures		5.968	-	-			5.968
Other items		128.226	4.392	-			123.834
Total standardised approach	***401.275***	***1.146.953***	***214.431***	**-**	***16.890***		***1.333.797***
Of which: Loans	397.602	325.993	210.039	-			513.556
Of which: Debt securities	-	-	-	-			-
Of which: Off-balance-sheet exposures	3.674	97.328	-	-			101.002

6.15 Credit quality of exposures by industry or counterparty types

Template 12 EU CR1-A

As at 31 December 2018	b		c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
€000	Defaulted exposures	Non-Defaulted exposures					(a +b-c-d)
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	16.122	37.133	9.961	-	749		43.294
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	2.949	4.880	1.639	-			6.190
AGRICULTURE, FORESTRY AND FISHING	3.239	1.583	3.108	-			1.714
ARTS, ENTERTAINMENT AND RECREATION	673	669	379	-			963
CONSTRUCTION	101.289	55.761	47.079	-	10.938		109.971
EDUCATION	42	2.855	74	-			2.823
ELECTRICITY, GAS, STEAM AND AIRCONDITIONING SUPPLY	9.079	224	6.350	-			2.953
FINANCIAL AND INSURANCE ACTIVITIES	16.764	347.712	2.828	-			361.648
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	841	5.331	129	-			6.043
INFORMATION AND COMMUNICATION	463	575	358	-			680
MANUFACTURING	1.847	53.258	1.518	-	566		53.587
MINING AND QUARRYING	-	12.770	185	-			12.585
OTHER SERVICE ACTIVITIES	4.643	236.857	3.738	-	85		237.762
PRIVATE INDIVIDUALS	117.646	114.213	71.556	-	17.382		160.303
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	986	13.672	730	-	335		13.928
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	-	260.721	7	-			260.714
REAL ESTATE ACTIVITIES	20.026	124.140	9.101	-	5.450		135.065
TRANSPORT AND STORAGE	5.638	29.615	1.646	-			33.607
WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND REMEDATION ACTIVITIES	-	8	-	-			8
WHOLESALE AND RETAIL TRADE, REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	24.553	79.626	13.896	-	15.776		90.283
Not Applicable				-			
Total	**326.800**	**1.381.603**	**174.283**	**-**	**51.281**		**1.534.121**

Note: The overall increase in Exposures was mainly driven by lending growth

As at 31 December 2017 €000	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					(a +b-c-d)
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	13.180	11.343	8.652	0	286		15.872
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	2.901	2.688	1.514	0			4.075
AGRICULTURE, FORESTRY AND FISHING	2.517	610	2.523	0			603
ARTS, ENTERTAINMENT AND RECREATION	180	1.675	96	0			1.759
CONSTRUCTION	130.331	33.772	61.181	0			102.922
EDUCATION		6.640	11	0			6.629
ELECTRICITY, GAS, STEAM AND AIRCONDITIONING SUPPLY	8.422	2.241	6.082	0			4.581
FINANCIAL AND INSURANCE ACTIVITIES	20.802	148.083	2.324	0	250		166.560
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	1.002	4.722	72	0			5.653
INFORMATION AND COMMUNICATION	55	834	57	0	1		832
MANUFACTURING	4.006	41.887	2.793	0	88		43.099
MINING AND QUARRYING	3.257	17.438	680	0			20.014
OTHER SERVICE ACTIVITIES	4.207	1.329	3.204	0			2.332
PRIVATE INDIVIDUALS	124.184	102.778	75.791	0	4.990		151.171
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	1.226	10.167	1.181	0	27		10.212
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY		155.258	18	0			155.240
REAL ESTATE ACTIVITIES	33.494	72.087	19.261	0	9.500		86.320
TRANSPORT AND STORAGE	6.181	14.099	1.579	0			18.700
WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND REMEDATION ACTIVITIES	27	58.414	25	0			58.416
WHOLESALE AND RETAIL TRADE, REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	45.304	71.219	27.385	0	1.748		89.138
Not Applicable		389.669	0	0			389.669
Total	**401.275**	**1.146.952**	**214.431**	**0**	**16.890**		**1.333.797**

6.16 Credit quality of exposures by geography
Template 13 EU CR1-C

	a	b	c	d	e	f	g
As at 31 December 2018 €000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a+ b -c-d)
	Defaulted exposures	Non-defaulted exposures					
Albania	-	9	-	-	-	-	9
Australia	-	1	-	-	-	-	1
Austria	-	1.663	-	-	-	-	1.663
Bahrain	-	3	-	-	-	-	3
Belarus	-	2	-	-	-	-	2
Belgium	-	68.201	-	-	-	-	68.201
Belize	-	139	-	-	-	-	139
British Virgin Islands	-	2.330	17	-	-	-	2.313
Bulgaria	-	17	-	-	-	-	17
Canada	6	38	5	-	-	-	39
Cyprus	324.554	1.028.399	172.368	-	-	-	1.180.585
Egypt	-	115	1	-	-	-	114
Finland	1	10	1	-	-	-	10
France	-	10.176	-	-	-	-	10.176
Germany	-	21	-	-	-	-	21
Gibraltar	-	35	-	-	-	-	35
Greece	17	75.184	184	-	-	-	75.017
Hong Kong, SAR China	-	7.468	-	-	-	-	7.468
India	-	33	-	-	-	-	33
Iran, Islamic Republic of	-	23	-	-	-	-	23
Israel	5	458	5	-	-	-	458
Italy	-	39.422	-	-	-	-	39.422
Jersey	-	-	-	-	-	-	-
Jordan	-	1	-	-	-	-	1
Kyrgyzstan	-	12	-	-	-	-	12
Latvia	-	3	-	-	-	-	3
Lebanon	-	27.758	170	-	-	-	27.588
Luxembourg	-	642	-	-	-	-	642
Macedonia, Republic of	-	4	-	-	-	-	4
Marshall Islands	-	9.679	151	-	-	-	9.528
MDB	-	-	-	-	-	-	-
Netherlands	-	15	-	-	-	-	15
Nigeria	-	1	-	-	-	-	1
Poland	-	8	-	-	-	-	8
Portugal	-	26.833	-	-	-	-	26.833
Qatar	-	1	-	-	-	-	1
Romania	-	52	1	-	-	-	51
Russian Federation	210	12.629	183	-	-	-	12.656
Serbia	-	17	-	-	-	-	17
Seychelles	-	-	-	-	-	-	-
Singapore	-	-	-	-	-	-	-
South Africa	-	28	-	-	-	-	28
Syrian Arab Republic (Syria)	-	4	-	-	-	-	4
Spain	-	5.700	-	-	-	-	5.700

Taiwan, Republic of China	7	-	4	-	-	-	3
Tunisia	-	12	-	-	-	-	12
Ukraine	-	110	1	-	-	-	109
United Arab Emirates	1	195	2	-	-	-	194
United Kingdom	1.152	51.162	982	-	-	-	51.332
United States of America	847	12.991	208	-	-	-	13.630
Total	**326.800**	**1.381.604**	**174.283**	**-**	**-**	**-**	**1.534.121**

Note: The overall increase in Exposures was mainly driven by lending growth

As at 31 December 2017 €000	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a+ b -c-d)
	Defaulted exposures	Non-defaulted exposures					
Albania	-	9	-	-	-	-	9
Australia	-	1	-	-	-	-	1
Austria	-	187	-	-	-	-	187
Bahrain	-	3	-	-	-	-	3
Belgium	-	38.104	-	-	-	-	38.104
Belize	-	*141*	-	-	-	-	141
British Virgin Islands	-	*12.930*	1	-	-	-	12.929
Bulgaria	-	26	-	-	-	-	26
Canada	6	38	6	-	-	-	38
Cyprus	399.288	978.814	212.941	-	16.745	-	1.165.160
Egypt	-	117	-	-	-	-	117
Finland	1	-	1	-	-	-	-
France	-	533	-	-	-	-	533
Germany	1	54	1	-	-	-	54
Greece	54	39.607	75	-	-	-	39.586
Hong Kong, SAR China	-	121	-	-	-	-	121
India	-	31	-	-	-	-	31
Iran, Islamic Republic of	-	25	-	-	-	-	25
Israel	4	621	4	-	-	-	622
Jersey	-	1	-	-	-	-	1
Jordan	-	1	-	-	-	-	1
Kyrgyzstan	-	12	-	-	-	-	12
Latvia	-	11	-	-	-	-	11
Lebanon	-	5.352	189	-	-	-	5.163
Luxembourg	-	997	-	-	-	-	997
Macedonia, Republic of	-	4	-	-	-	-	4
Marshall Islands	-	8	-	-	-	-	8
MDB	-	16.758	-	-	-	-	16.758
Netherlands	-	15	-	-	-	-	15
Portugal	-	23.584	-	-	-	-	23.584
Qatar	-	1	-	-	-	-	1

Romania	-	39	1	-	-	-	39
Russian Federation	235	2.478	194	-	-	-	2.518
Serbia	-	17	-	-	-	-	17
Seychelles	-	1	-	-	-	-	1
Singapore	-	3	-	-	-	-	3
South Africa	-	30	-	-	-	-	30
Syrian Arab Republic (Syria)	-	4	-	-	-	-	4
Taiwan, Republic of China	-	7	1	-	-	-	6
Tunisia	-	12	-	-	-	-	12
Ukraine	-	109	-	-	-	-	109
United Arab Emirates	1	176	1	-	-	-	176
United Kingdom	1.019	876	946	-	145	-	948
United States of America	669	25.095	70	-	-	-	25.694
Total	**401.275**	**1.146.951**	**214.430**	**-**	**16.890**	**-**	**1.333.797**

6.17 Ageing of past-due exposures
Template 14 EU CR1-D – EBA guidelines

As at 31 December 2018		Gross carrying values					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	71.231	6.318	2.273	6.601	16.827	236.636
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**71.231**	**6.318**	**2.273**	**6.601**	**16.827**	**236.636**

Note: The decrease in past-due exposures was mainly driven by effective restructurings, debt-to-asset swap transactions, write offs, etc.

As at 31 December 2017		Gross carrying values					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	131.926	16.046	9.915	1.333	8.831	270.798
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**131.926**	**16.046**	**9.915**	**1.333**	**8.831**	**270.798**

6.18 Non-performing and forborne exposures

Template 15 EU CR1 – EBA guidelines

As at 31 December 2018	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Debt securities	377.185												
Loans and advances	1.054.728	5.228	39.988	323.544	319.861	303.335	81.580	-	-	174.588	13.773	138.408	98.609
Off-balance-sheet exposures	112.856			7.420	7.405			-		202			

As at 31 December 2017	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30a days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Debt securities	230.466												
Loans and advances	723.613	14.999	9.003	406.431	397.602	292.829	130.268	2.109	52	207.984	15.957	159.290	113.620
Off-balance-sheet exposures	81.269			3.674	3.674			81		366			

Note: The decrease in non-performing and default exposures was mainly driven by debt-to-asset swap transactions, by classification of non-performing forborne exposures to performing after meeting the exit criteria, by write offs, etc. The accounting definition of impaired and the regulatory definition of default and non-performing are generally aligned to a great degree. The Bank is in the process of full alignment of the default and credit impaired with the non-performing.

6.19 Changes in the stock of defaulted and impaired loans and debt securities Template 17 EU CR2-B – EBA guidelines

As at 31 December 2018	Gross carrying value defaulted exposures €000
Opening balance	**401.275**
Loans and debt securities that have defaulted or impaired since the last reporting period	27.332
Returned to non-defaulted status	(44.224)
Amounts written off	(51.200)
Loans that have been resolved through Debt-to-Asset Swap	(6.942)
Other changes	(6.380)
Closing balance	**319.861**

Note: The decrease in defaulted exposures was mainly driven by debt-to-asset swap transactions, by classification of non-performing forborne exposures to performing and non-defaulted after meeting the exit criteria, by write offs, etc.

As at 31 December 2017	Gross carrying value defaulted exposures €000
Opening balance	**460.116**
Loans and debt securities that have defaulted or impaired since the last reporting period	6.616
Returned to non-defaulted status	(11.754)
Amounts written off	(16.890)
Loans that have been resolved through Debt-to-Asset Swap	(33.110)
Other changes	(3.703)
Closing balance	**401.275**

6.20 Internal Capital Adequacy Assessment Process

The Bank's Pillar II capital assessment relies largely on the Pillar I Plus approach under which Pillar I capital requirements serve as a starting point and thereafter an assessment is conducted to investigate the possibility of whether an additional capital cushion should be set aside for:

(a) Pillar I risks (namely, credit and counterparty risk, operational risk, market risk) that may not be adequately covered by the regulatory capital requirements calculated under the Standardised Approach, and

(b) Pillar II risks that lie beyond the scope of the regulatory capital requirements calculated under Pillar I. Such risks typically include future non-performing loans (NPLs) from customer lending and their impact on projected earnings, concentration risk, interest rate risk, liquidity risk and business risk. Through the ICAAP Stress Test process the risks are assessed on a forward looking assessment in adverse conditions.

Pillar II capital is allocated to those risks where capital can actually serve as an effective cushion against future possible losses. No Pillar II capital is allocated under ICAAP for risks that capital cannot realistically absorb future possible losses, including catastrophic risks. Stress Testing is a key risk management tool to ensure that the Bank's financial position and risk profile provide sufficient resilience to withstand the impact of adverse economic stress. The stress testing program may include Sensitivity analysis and reverse Stress Testing that explore scenarios that might cause the Bank's capital or liquidity position to fall below the minimum regulatory requirements.

The Bank has not yet started the preparation of the ICAAP for the year 2018. Following the completion of the sale of the assets and liabilities of USB Bank to AstroBank Limited on 18.01.2019, the Bank has been granted an extension until 31.12.2019, in order for the ICAAP to be prepared on a combined entity basis after the completion of the integration project plan, which is estimated in mid-October 2019.

7. MARKET AND LIQUIDITY RISK

7.1 Definition of Market & Liquidity Risk

Liquidity Risk is the risk that the Bank cannot generate or source sufficient liquid funds in order to meet its immediate liabilities, without incurring significant economic costs.

Market Risk is analyzed into the following types of risks:

- <u>Interest Rate Risk</u> is the risk that the value of financial instruments and net interest income will decrease due to adverse movements in market interest rates. Interest Rate Risk arises due to timing differences in the re-pricing of interest rates or the maturity of assets and liabilities. The Bank manages interest rate risk through the monitoring on a regular basis of interest rate gaps by currency and time band.

- <u>Currency Risk</u> is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates.

- <u>Price Risk</u> is the risk associated with changes in the market prices of various financial instruments (bonds, derivatives, equities, etc.) owned by the Bank.

7.2 Liquidity Risk Management Framework

The Bank operates within a Liquidity Risk management framework incorporating the following principles:

- The Bank shall have in place methodologies and supporting processes and systems in order to be able to constantly monitor prudential liquidity indicators and control its liquidity position. A liquidity limit structure, compliant with the relevant regulatory requirements, shall cover cash flow mismatches and the liquidity structure of assets for all major currencies in which the Banks operates.

- In addition to the assessment of the liquidity surplus under normal circumstances, a scenario-based stress testing methodology shall be deployed for the analysis of the Bank's liquidity profile after the deduction of 'hot monies' which may include short term deposits, customer term deposits that are likely to be withdrawn early, ECB funds that are subject to sovereign credit quality criteria, etc.

- The assumptions utilized in the Liquidity Risk management framework shall capture both Idiosyncratic and Systemic Risk factors.

- The Bank shall maintain adequately diversified funding sources by focusing on retail deposits rather than wholesale funding.

- Contingency plans for handling liquidity disruptions/crises shall exist and describe explicit processes for restoring cash flow shortfalls in a timely and cost effective manner.

Liquidity Risk is monitored and controlled by the Treasury Department, the Finance Department and the Risk Management Department. The conformity with the regulations set by the applicable Supervisory Authorities for liquidity ratios and mismatched maturity ratios both in Euro and in foreign currencies, and with internal limits are monitored on a daily basis. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions without incurring unacceptable losses.

The monitoring and management of Liquidity Risk is achieved through the use and monitoring of the following:
- Balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities.
- Maturity mismatch indices between financial assets and financial liabilities for periods of up to one month.
- Available liquid assets to customer deposits ratios, in Euro and foreign currencies.
- Liquidity Coverage Ratio based on EU Regulation 2015/61 regarding the coverage requirement of Liquidity Risk.

The Bank uses liquidity stress testing and conducts an ILAAP annually to determine its liquidity tolerance and liquidity buffers. The ILAAP report gives an overview of the Bank's approach to liquidity risk management and the Board's assessment of the prudent level of liquidity resources that the Bank should hold based on its liquidity risk appetite. The liquidity stress testing covers three scenarios: An idiosyncratic, market-wide and a combined stress (i.e. combination of the idiosyncratic and market-wide). The methodology and assumptions used in the stress testing are based on conservative assumptions driven by the Liquidity Coverage Ratio

(LCR) specifications and the various results are used by the Bank into developing liquidity and funding plans.

The Bank has not yet started the preparation of the ILAAP for the year 2018. Following the completion of the sale of the assets and liabilities of USB Bank to AstroBank Limited on 18.01.2019, the Bank has been granted an extension until 31.12.2019, in order for the ILAAP to be prepared on a combined entity basis, after the completion of the integration project plan, which is estimated in mid-October 2019.

As at 31 December 2018, at the date of the finalization of its audited Financial Statements and throughout the year, the Bank was in compliance with the required minimum Liquidity Coverage Ratio of the European Central Bank. The LCR was in effect from 1 October 2015 with a regulatory limit of 60% increasing to 100% from 1 January 2018.

LCR ratio %	
As at 31 December 2018	553%
Average for the year	378%
Maximum percentage for the year	553%
Minimum percentage for the year	314%

LCR ratio %	
As at 31 December 2017	323%
Average for the year	362%
Maximum percentage for the year	491%
Minimum percentage for the year	297%

The table below shows a quantitative analysis of LCR which complements Article 435(1)(f) of regulation 575/2013 (Template EU LIQ1 EBA guidelines on LCR disclosure):

31 December 2018 Scope of consolidation: solo		Total unweighted value (average)				Total weighted value (average)			
€ million		€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
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		12	12	12	12	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS								
1	**Total high-quality liquid assets (HQLA)**					**525.248**	**557.695**	**593.039**	**619.563**
	CASH – OUTFLOWS								
2	**Retail deposits and deposits from small business customers, of which:**	**220.555**	**235.574**	**256.588**	**280.934**	**21.362**	**22.656**	**24.564**	**26.940**
3	Stable deposits	38.905	42.003	45.512	49.036	1.945	2.100	2.276	2.452
4	Less stable deposits	181.649	193.571	211.076	231.898	19.416	20.556	22.288	24.488
5	**Unsecured wholesale funding**	**601.285**	**618.959**	**631.880**	**621.808**	**211.066**	**218.611**	**224.898**	**222.196**

6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	184	260	204	203	37	54	41	41
7	Non-operational deposits (all counterparties)	601.102	618.700	631.676	621.605	211.029	218.557	224.857	222.155
8	Unsecured debt								
9	Secured wholesale funding								
10	Additional requirements								
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								
14	Other contractual funding obligations	2.093	3.287	5.002	8.476	169	276	439	776
15	Other contingent funding obligations	83.907	86.246	88.010	89.826	16.825	16.595	16.438	16.405
16	TOTAL CASH OUTFLOWS					**249.421**	**258.138**	**266.339**	**266.318**
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)								
18	Inflows from fully performing exposures	165.482	162.524	164.012	173.425	87.733	82.962	84.776	94.023
19	Other cash inflows	2.444	2.878	3.220	3.385	2.444	2.878	3.220	3.385
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**	**167.926**	**165.402**	**167.232**	**176.810**	**90.177**	**85.840**	**87.996**	**97.408**
EU-20a	Fully exempt inflows								
EU-20b	Inflows subject to 90% cap								
EU-20c	Inflows subject to 75% cap	167.926	165.402	167.232	176.810	90.177	85.840	87.996	97.408
		TOTAL ADJUSTED VALUE							
21	**LIQUIDITY BUFFER**					**525.248**	**557.695**	**593.039**	**619.563**
22	**TOTAL NET CASH OUTFLOWS**					**159.244**	**172.298**	**178.343**	**168.910**
23	**LIQUIDITY COVERAGE RATIO (%)**					**332%**	**324%**	**332%**	**378%**

31 December 2017 Scope of consolidation: solo		Total unweighted value (average)				Total weighted value (average)			
€ million		€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
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	
	HIGH-QUALITY LIQUID ASSETS								
1	**Total high-quality liquid assets (HQLA)**					**463.147**	**484.920**	**527.202**	**517.516**
	CASH – OUTFLOWS								
2	**Retail deposits and deposits from small business customers, of which:**	**202.132**	**207.261**	**215.826**	**219.119**	**19.853**	**20.305**	**21.216**	**21.019**
3	Stable deposits	34.862	35.459	37.142	40.146	1.743	1.773	1.857	2.007
4	Less stable deposits	167.270	171.803	178.684	178.973	18.109	18.532	19.359	19.011
5	**Unsecured wholesale funding**	**611.380**	**587.849**	**609.199**	**592.805**	**216.671**	**206.491**	**214.448**	**206.918**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	58	94	231	15	8	17	51	1
7	Non-operational deposits (all counterparties)	611.322	587.755	608.968	592.790	216.663	206.474	214.397	206.918
8	Unsecured debt								
9	Secured wholesale funding								
10	Additional requirements								
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								
14	Other contractual funding obligations	6.921	1.321	1.622	1.757	665	109	128	129
15	Other contingent funding obligations	72.452	78.305	87.432	84.908	15.032	16.350	17.983	17.220
16	TOTAL CASH OUTFLOWS					**252.221**	**243.255**	**253.775**	**245.287**
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)								
18	Inflows from fully performing exposures	220.187	187.471	168.701	155.344	143.476	109.167	92.688	77.389
19	Other cash inflows	2.162	2.281	2.253	2.186	2.162	2.281	2.253	2.186
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)								
19b	(Excess inflows from a related specialised credit institution)								
20	**TOTAL CASH INFLOWS**	**222.349**	**189.752**	**170.954**	**157.530**	**145.638**	**111.449**	**94.942**	**79.575**
20a	Fully exempt inflows								
20b	Inflows subject to 90% cap								
20c	Inflows subject to 75% cap	222.349	189.752	170.954	157.530	145.638	111.449	94.942	72.748
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**463.147**	**484.920**	**527.202**	**517.516**
22	**TOTAL NET CASH OUTFLOWS**					**106.583**	**131.806**	**158.833**	**165.712**
23	**LIQUIDITY COVERAGE RATIO (%)**					**437%**	**368%**	**332%**	**312%**

7.3 Market Risk Management Framework

The Board of Directors, Board Risk Committee (BRC), Asset-Liability Committee (ALCO), Risk Management Department, Internal Audit Unit and Treasury Department are considered as the primary units involved in the Market Risk Management process.

- The Board of Directors approves the Market Risk Management Strategy and Policy, as well as any amendments to it. It ensures the implementation of the Market Risk Management Strategy and Policy, as well as the completeness and suitability of the Market Risk Limits Management framework. It is regularly – or ad hoc if necessary – updated on the evolution of market conditions as well as on the Bank's key financial figures which relate to Market Risks.

- The BRC preapproves the Market Risk Management Strategy and Policy, as well as any amendments, ensuring its alignment with the Risk Management Framework. It ensures the implementation of the Market Risk Management Strategy and Policy as well as the completeness and suitability of the Market Risk Limits Management framework. It is regularly – or ad hoc if necessary – updated on the evolution of market conditions as well as on the key financial figures of the Bank which relate to Market Risks. Lastly, it ensures the suitability and adequacy of the framework of policies, procedures, systems and general controls employed in the management of Market Risk.

- The role of the ALCO is to drive the Bank in maintaining its competitiveness and profitability, while at the same time ensuring that the risk undertaking will remain within the limits of the approved strategy. The ALCO sets and approves the Market Risk limits.

- Following propositions of the Bank's trading desk, the Risk Management Department develops and submits for approval to BRC – on behalf of the Bank – the Market Risk policy and any amendments to it.

  In addition to the above, the Risk Management Department monitors compliance with regulatory and internal limits, manages any limit breaches by creating the necessary reports and monitors compliance measures. It is also responsible for the measurement of risk by calculating various measures and generating reports, and for developing measurement methodologies aligned to international standards and best practices.

- The Internal Audit Unit is responsible for evaluating the effectiveness of the implementation of the Market Risk Management Policy. More specifically, it evaluates the effectiveness of the said policy and any related procedures, performs audits to ensure that the personnel of the involved units follow the approved policy and procedures, and verifies that the data related to Market Risk measurement are identified correctly in the systems. Finally, the Internal Audit Unit evaluates compliance of the policy with the principles required by the applicable regulatory framework.

- Lastly, the Treasury Unit submits to the ALCO proposals for particular actions in the context of enhancing the Market Risk strategy, participates in shaping the Policy and the limits framework, and ensures compliance with the predefined limits, justifying any limit breach and the application of necessary compliance actions.

The Bank has exposure to financial transactions included in Available for Sale (AFS) portfolios. These have short to medium term horizon and their profit derives from differences in buy-sell prices. These portfolios include positions which hedge risk deriving from other transactions in products categorized in Trading or AFS portfolios. The Bank maintains small positions in its Trading Book and as a result market risk is not significant.

The table below shows the capital requirements for the Trading Book by risk category:

Template 34 EU MR1 EBA guidelines – Market risk under the standardised approach

As at 31 December 2018 **€000**	**RWAs**	**Capital requirements**
Outright products		
Interest rate risk (general and specific)	3.217	257
Equity risk (general and specific)	0	0
Foreign exchange risk	0	0
Total	**3.217**	**257**

As at 31 December 2017 **€000**	**RWAs**	**Capital requirements**
Outright products		
Interest rate risk (general and specific)	8.063	645
Equity risk (general and specific)	0	0
Foreign exchange risk	0	0
Total	**8.063**	**645**

Fair value of bonds, shares and other financial instruments

The best evidence of fair value is a quoted price in an actively traded market. The fair value of bonds, shares and other financial instruments that are not traded in an active market is determined by using valuation techniques. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

7.3.1 Interest Rate Risk

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 Bank monitors Interest Rate Risk by measuring the sensitivity of Net Interest Income, for a period of 12 months, under various interest rate change scenarios. The table below shows the impact on Net Interest Income (over the next 12 months) as a result of a change of ±200 basis points in interest rates by currency as at 31 December 2018:

As at 31 December 2018 Change (€ milion)	Euro	US Dollar	Swiss Franc	Total (absolute values)
+200 basis points	(4.3)	(1.1)	(0.1)	5.6
-200 basis points	4.3	1.1	0.1	5.6

As at 31 December 2017 Change (€ milion)	Euro	US Dollar	Swiss Franc	Total (Absolute values)
+200 basis points	(2.4)	0.1	(0.2)	2.7
-200 basis points	2.4	(0.1)	0.2	2.7

Interest Rate Risks are identified, measured and managed at all times and on a best effort basis. All Interest Rate Risks assumed are communicated to the Treasury Unit which is responsible for their effective management, within approved limits. Interest Rate Risk limits are set and monitored against the exposure of all interest rate sensitive assets and liabilities, both on and off balance sheet, and limit excesses are reported to the relevant parties immediately.

7.3.2 Currency Risk

Currency Risk may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or from derivatives. The Bank enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Bank's Treasury Unit also enters into spot foreign exchange transactions within predefined and approved limits, as well as transactions in derivatives such as foreign exchange forwards and foreign exchange swaps.

The table below reflect the Bank's exposure to Currency Risk which stems from its open positions in the various currencies as at 31 December 2018. The analysis below assumes possible scenarios of movements to take place in specific foreign currencies against the Euro.

As at 31 December 2018 Currency	Change in exchange rates %	Impact on Income Statement €000
US Dollar	+10% (-10%)	14 (-14)
British Pound	+10% (-10%)	3 (-3)
Swiss Franc	+10% (-10%)	9 (-9)
Other currencies	+10% (-10%)	5 (-5)

As at 31 December 2017 Currency	Change in exchange rates %	Impact on Income Statement €000
US Dollar	+10% (-10%)	30 (-30)
British Pound	+10% (-10%)	10 (-10)
Swiss Franc	+10% (-10%)	231 (-231)
Other currencies	+10% (-10%)	0 (-0)

7.3.3 Price Risk

The Bank invests in listed and non-listed equity shares which, depending on the purpose of the investment, are classified in the appropriate portfolio. Currently all investments in equity securities, except for investments in subsidiaries, are classified at FVTOCI and FVTPL.

For more information in relation to equities refer to note 34 of the Financial Statements for the year ended 31 December 2018.

As at 31 December 2018 Investments in Equities	Amount 31 December 18 €000
Cost	
Balance 1 January 2018	12.204
Acquisitions	65
Disposals	-
Gain recognised in the consolidated income statement	1.355
Balance 31 December 2018 at cost	**13.624**
Fair value	
Balance 1 January 2018	12.204
Acquisitions	65
Disposals	-
Gain recognised in the consolidated income statement	1.355
Balance 31 December 2018 at fair value	**13.624**

As at 31 December 2017 Investments in Equities	Amount 31 December 2017 €000
Cost	
Balance 1 January 2017	12.204
Acquisitions	-
Disposals	-
Balance 31 December 2017 at cost	**12.204**
Fair value	
Balance 1 January 2017	12.204
Acquisitions	-
Disposals	-
Balance 31 December 2017 at fair value	**12.204**

8. OPERATIONAL RISK

8.1 Definition of Operational Risk

Operational Risk is defined as the risk of loss deriving from inadequate or failed internal processes, people and systems or from external events. This definition also includes legal, conduct and reputational risks. The underlying causes of the Operational Risk are mitigated through procedures, systems and internal controls.

8.2 Operational Risk Management procedures

The Bank establishes policies and procedures for managing Operational Risk and ensures that these are adhered to in the conduct of its operations. Operational Risk is managed by establishing internal processes and controls involving:

- Segregation of duties, including independent authorization of transactions, the reconciliation and monitoring of transactions, documentation of controls and procedures.
- Compliance with regulatory and other legal requirements.
- Development of business continuity and disaster recovery plans.
- Personnel training.
- Risk mitigation by taking out insurance cover.
- Own knowledge of the business.
- Risk and Control Self-Assessment (RCSA).
- Internal Audit Reports.
- External Audit Reports.

Internal Audit has the responsibility of reviewing periodically the above procedures and controls.

9. ASSET ENCUMBRANCE

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralized obligations and, as a result, is no longer available to the Bank for further collateral or liquidity requirements. The following tables present an analysis of the encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes.

9.1 Encumbered and unencumbered assets by asset type:

31 December 2018	Carrying value of encumbered assets €000	Fair value of encumbered assets €000	Carrying value of unencumbered assets €000	Fair value of unencumbered assets €000
Shares	-	-	22.349	22.349
Bonds	-	-	379.036	1.851
Other assets	-	-	1.003.843	1.003.843
Total	**-**	**-**	**1.405.228**	**1.405.228**

31 December 2017	Carrying value of encumbered assets €000	Fair value of encumbered assets €000	Carrying value of unencumbered assets €000	Fair value of unencumbered assets €000
Shares	-	-	12.204	12.204
Bonds	-	-	230.466	230.466
Other assets	-	-	1.001.737	1.001.737
Total	**-**	**-**	**1.244.407**	**1.244.407**

As at 31 December 2018 the Bank did not have any encumbered or unencumbered collateral received or own debt securities issued, nor were there any encumbered assets and off-balance-sheet items with its associated liabilities to report.

10. 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 Bank's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council. The Bank calculates its Leverage Ratio as at the end of each quarter.

The minimum required level for the purposes of the Leverage Ratio is currently set at 3%. The Bank's Leverage Ratio as at 31 December 2018 amounted to 7,82%. During 2018 the Leverage Ratio ranged between 7,44% (30 September 2018) and 7,82% (31 December 2018), primarily due to the reduction of the exposure measure (denominator) of the Leverage Ratio by the end of the fourth quarter.

The Bank monitors its Leverage Ratio at least on a quarterly basis and all appropriate measures are taken where deemed necessary.

The following table provides a reconciliation of accounting assets and leverage ratio exposures for reporting date 31 December 2018:

31 December 2018		Applicable Amounts €000
1	Total assets as per published financial statements	1.397.465
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	682
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)	35.748
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	7.252
8	**Total Leverage Ratio Exposure**	**1.441.147**

31 December 2017		Applicable Amounts €000
1	Total assets as per published financial statements	1.244.407
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	993
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)	21.915

EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(1.209)
8	**Total Leverage Ratio Exposure**	**1.266.106**

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

31 December 2018		CRR leverage ratio exposures €000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1.360.867
2	(Asset amounts deducted in determining Tier 1 capital)	(6.219)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	1.354.648
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	55
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	689
11	**Total derivative exposures**	745
Securities financing transaction exposures		
16	**Total securities financing transaction exposures**	**50.006**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	129.674
18	(Adjustments for conversion to credit equivalent amounts)	(93.926)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**35.748**
Capital and total exposures		
20	**Tier 1 capital**	**112.660**
21	**Total leverage ratio exposures**	**1.441.147**
Leverage ratio		
22	**Leverage ratio (transitional definition)**	**7,82%**

31 December 2017		CRR leverage ratio exposures €000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1.247.612
2	(Asset amounts deducted in determining Tier 1 capital)	(4.414)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	1.243.198
Derivative exposures		

4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	19
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	974
11	**Total derivative exposures**	**993**
Securities financing transaction exposures		
16	**Total securities financing transaction exposures**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	101.005
18	(Adjustments for conversion to credit equivalent amounts)	(79.090)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**21.915**
Capital and total exposures		
20	**Tier 1 capital**	**111.185**
21	**Total leverage ratio exposures**	**1.266.106**
Leverage ratio		
22	**Leverage ratio (transitional definition)**	**8,78%**

The following table provides a breakdown of total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by exposure class:

31 December 2018	CRR leverage ratio exposures €000
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**1.356.140**
Trading book exposures	1.851
Banking book exposures, of which:	1.354.289
Covered bonds	*12.755*
Exposures treated as sovereigns	*486.130*
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	*55.966*
Institutions	*58.851*
Secured by mortgages of immovable properties	*86.791*
Retail exposures	*44.890*
Corporate	*279.012*
Exposures in default	*118.244*
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	*211.650*

31 December 2017	CRR leverage ratio exposures €000
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**1.247.612**
Trading book exposures	15.810
Banking book exposures, of which:	1.231.802
Covered bonds	*-*
Exposures treated as sovereigns	*573.195*

Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	*19.461*
Institutions	*58.826*
Secured by mortgages of immovable properties	*91.822*
Retail exposures	*36.242*
Corporate	*124.282*
Exposures in default	*127.607*
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	*200.367*

11. REMUNERATION DISCLOSURES

This section discloses information relating to the remuneration policies and procedures of AstroBank Limited, and sets out some remuneration details with regards to those members of management and staff who, as at 31 December 2018, were considered to have material impact on the Bank's risk profile.

The Bank's remuneration policy supports a performance culture that aligns the organization's objectives with the stakeholders' interests and motivates the employees to continue to act in a way that is beneficial for the Bank.

The remuneration policy is based on the following principles:

- Maximize Performance
- Attract and retain talents
- Align earnings and reward with profitability, risk, capital adequacy and sustainable growth
- Comply with the regulatory framework
- Ensure internal transparency.

11.1 Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee ("NR Committee") with the objective of the delegation of its duties concerning the Bank's remuneration policy and the oversight required to ensure its proper implementation, maintenance and update.

In relation to nomination matters, the NR Committee is responsible to:

- Propose to the Board a person or persons suitable to succeed the Chairman or the Managing Director in case of resignation or permanent inability for any reason to perform their duties during their term of office.

- Propose to the Board an individual or individuals suitable to replace the Directors in case of resignation, disqualification from the office or permanent inability to discharge their duties for any reason during their term of office. Non-acceptance of election as Board member shall be treated in the same way as a resignation.

- For the purposes of the first paragraph above, decide on setting the target for the representation of the under-represented sex in the governing body and prepare the policy on increasing the number of the under-represented sex on the governing body, in order to realize this objective. The aim of the policy and its application are published in accordance with the provisions of Article 435 paragraph (2) (c) of Regulation (EU) No. 575/2013.
- Ensure that decision-making by the Board is not dominated by a single person or small group of individuals in a manner prejudicial to the interests of the institution as a whole.
- Evaluate annually the skills, knowledge and expertise of the Directors, and report thereon to the Board.
- Evaluate annually the structure, size, composition and performance of the Board of Director and make recommendations to the Board for any changes.
- Examine issues related to the design of succession.
- Review periodically the policy of the Board of Directors on the selection, development and appointment of senior management and the head of the Internal Audit Department and make recommendations to the Board.
- Review periodically the policy of the Bank on the recruitment, job rotation and promotion of staff and submit relevant reports to the Board.
- Review periodically, and at least annually, in cooperation with the Audit Committee and the Risk Management Committee, the composition, powers and independence of the Internal Audit Department and submit relevant reports to the Board.

As far as issues relating to remuneration, the NR Committee is responsible to:

- Define the policy of the Bank on remuneration and other benefits received by the Executive Members of the management and other employees of the Bank in accordance with the relevant Central Bank Directive and taking into account where applicable, the Collective Agreements between the Cyprus Bankers Employers' Association and the Cyprus Union of Bank Employees (ETYK).
- Review every year the Remuneration Policy and ensure its implementation.
- Ensure that the Executive Members of the Bank receive remuneration and benefits commensurate with their duties and responsibilities, capable to attract and retain executives of high caliber and efficiency and which are commensurate to those given by other financial institutions of comparable size and business operations in Cyprus and

abroad. In determining the remuneration of each member, his/her contribution to the achievement of the Bank's objectives shall be taken into account.

- Align the interests of shareholders with those of the Executive Members of the Management through regular or special bonuses linked to the profitability or return on equity, or generally the financial results of the Bank.

- Examine the obligations arising in the case of early termination of contracts of Executive Directors / Directors (including their pension rights).

- Ensure that the Internal Audit Department is involved in the design, review and implementation of the remuneration policy.

The NR Committee may meet with the frequency it deems necessary, but at least once year. During 2018 the Committee held two meetings.

As at 31st December 2018 the NR Committee was comprised of three Non-Executive Directors in the Bank's Board.

11.2 Remuneration Policy

The Bank's Remuneration Policy is according to the signed collective agreement with the Bank Employees Trade Union (ETYK) and aims to be in line with the Bank's business strategy and objectives. The Remuneration Policy is consistent with the effective management of risk and does not encourage excessive risk-taking 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 or options).

11.2.1Assessment of employee performance

The management of the performance of human resources and the utilization of skills are crucial for the improvement of the efficiency of the Bank and for the continuous increase in the value given by the Bank to its clients, shareholders and collaborators. In the context of the need to set common criteria for measuring the efficiency and potential development of human capital and the Bank's business units, the following two automated evaluation systems are applied:

- Evaluation of Performance and Behaviour-Skills of human resources based on the "Cezanne" system.
- Evaluation of the professional behaviour of Bank executives based on "Lead 360" system.

These systems form part of the constant quest for continuous development of the human resources of the Bank. The aim of the projects is to modernize staff administration procedures and to give autonomy to staff to have a direct and effective communication with subordinates / superiors which contributes significantly to the creation of suitable relations for continuous development and improvement of employees.

11.2.2 Fixed remuneration

Fixed remuneration within the Bank is structured based on salary scales which are determined according to each employee's grade and basic salary. The percentage of established posts is set at 33% of the total number of staff of the Bank, and a calculation of the 33% of established posts is performed annually on 31st October, with the purpose of any resulting changes to become effective on 1st January of the following year. It is noted that the percentage of established posts as at 31 December 2018 was well above the minimum percentage as defined in the collective agreement. Non-Executive directors receive a fixed remuneration package approved by the NR Committee each year.

11.2.3Variable remuneration

Variable remuneration is based on predefined quantitative and qualitative targets, both short and long term. The criteria employed take into account the Bank's medium- and long-term strategy, align the interests of employees with the interests of the organization and the shareholders and ensure that excessive risk-taking or short-term orientation is avoided, while they are also linked to the performance of the individual and the unit concerned. A summary of the most important criteria in evaluating employee performance is presented below:

- Qualitative criteria
  - Effectiveness and Orientation to Goals
  - Business initiative
  - Influence and Perseverance
  - Crisis and creativity
  - Change management and flexibility
  - Create a Contact Network
  - Managing and developing individuals

- Quantitative criteria
  - The quantitative criteria are determined according to the employee's role, duties and responsibilities.

During 2018**, variable remuneration** in the form of cash was granted to one Bank employee and related to a sign-on bonus.

11.2.4 Analysis of remuneration of senior management and other code staff

31 December 2018 Item	Senior Management	Other Code Staff[1]	Total
Number of beneficiaries	30	12	**42**
Fixed remuneration – Total cost - €'000	2.944	996	3.940
Variable remuneration	75	-	75

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

Total remuneration – Total cost - €'000	**3.019**	**996**	**4.015**
Of which:			
Outstanding deferred remuneration			
New sign-on payments / severance payments	*75*	*-*	*75*

31 December 2017 Item	Senior Management	Other Code Staff[2]	Total
Number of beneficiaries	28	34	**62**
Fixed remuneration – Total cost - €'000	2.693	2.556	**5.249**
Variable remuneration	36	-	**36**
Total remuneration – Total cost - €'000	**2.729**	**2.556**	**5.285**
Of which:			
Outstanding deferred remuneration	-	-	-
New sign-on payments / severance payments	*36*	-	*36*

11.2.5 Analysis of remuneration by business area

31 December 2018 Position	Senior Management €000	Other Risk Takers €000	Total €000
Executive Board Members	598		598
Non-Executive Independent and Non-Independent Board Members	509		509
Independent Control Functions	263	52	315
Corporate	600	83	683
Investment Banking	330		330
Retail Banking	719	861	1.580
Asset Management			
Other Functions			
Total	**3.019**	**996**	**4.015**

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

31 December 2017 Position	Senior Management €000	Other Risk Takers €000	Total €000
Executive Board Members	749	-	749
Non-Executive Independent and Non-Independent Board Members	551	-	551
Independent Control Functions	210	146	356
Corporate Functions	613	790	1.403
Investment Banking	205	83	288
Retail & Corporate Banking	401	1.066	1.467
Asset Management (Custody)	-	76	76
Other Functions	-	395	395
Total	**2.729**	**2.556**	**5.285**

12. OPERATING ENVIRONMENT

The Cyprus economy has been recovering at an accelerating pace since 2014.The medium-term outlook remains favourable, driven by higher demand in the sectors of tourism, construction, business services, transport and retail trade and as a consequence falling unemployment and broadening investments. At the same time, the Cypriot economy continues to face challenges primarily in relation to high public indebtedness and a high level of NPEs.

Real GDP (Gross Domestic Product) increased by 3,9% in 2018 following increases of 4,5% and 4,8% in the preceding two years (Cyprus Statistical Service). The outlook for 2019-2020 remains positive with real GDP expected to rise by 3,8% and 3,4% respectively according to the Cyprus Statistical Service. On the expenditure side, consumption has been the main driver in the upswing which can be attributed to higher employment level and disposable incomes as well as spillover effects from stronger external demand. Employment increased by 5,6%, in the first three quarters not-seasonally adjusted, compared with an increase of 4,6% in 2017 (Cyprus Statistical Service). Exports of goods and services continued to grow robustly in 2018 rising by 6,7% in real terms, in the first three quarters (Cyprus Statistical Service). Exports are expected to continue to underpin the recovery. Cyprus might also be impacted negatively by Brexit. Cyprus has close trade and investment links with the UK, which means that its economic recovery is vulnerable to any negative impact on the UK economy caused by Brexit. Consumer inflation is on a positive trajectory following the fast correction during the crisis years. Inflation accelerated modestly in 2018 to 1,4% from 0,5% in 2017 (Cyprus Statistical Service). This was owed in large to higher global energy prices. Inflation is expected to accelerate further in the medium term as tighter labour market conditions gradually lead to higher wages, but will remain relatively modest by historical standards.

Government finances moved to a surplus of 1,8% of GDP in 2017. The budget surplus is estimated at 2,8% of GDP in 2018, according to the Cyprus Statistical Service, excluding the impact of banking support measures related to the Cyprus Cooperative Bank (CyCB). The budget surplus is driven by buoyant revenue growth underpinned by strong economic activity. Expenditure increases will be driven mainly by public sector pay rises and social transfers, but are expected to lag revenue growth. The budget cost of the ESTIA Scheme - a State-supported scheme to aid the loan repayment of vulnerable groups with non-performing exposures (NPEs) backed by primary residences – will be relatively low and its impact on the budget balance will be marginal. Public debt peaked over 2015-2016. After a one-off increase in 2018 due to the placement of government bonds as part of the partial sale of Cyprus Cooperative Bank, the decline is expected to resume and progress steadily to 85% by 2021.

In July 2018, the Cyprus government has taken additional steps to address regulatory issues relating to NPEs. Parliament voted on Cyprus government legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures, along with ESTIA, will support further reductions in the remaining stock of NPEs. There has been a sharp reduction in NPEs by 50% over 2018 due to a sale of NPE portfolio of €2,7 billion gross book value in Q2 2018 by Bank of Cyprus and the transfer of Cyprus Cooperative Bank's NPEs of €6,9 billion gross book value to a state-owned Asset Management Company in Q3 2018.

In October 2018 Fitch Ratings upgraded the Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3. The improvement in the ratings since the crisis in 2013 reflects the government's fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector and the successful implementation of the economic adjustment programme.

13 Adoption of new International Financial Reporting Standard

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). Based on the introduction of IFRS16 the new leases standard will require Banks to bring most leases on Balance sheet, i.e. "*For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with a new asset on the other side of the balance sheet. In other words, lessees will appear to become more asset-rich but also more heavily indebted. The impacts are not limited to the balance sheet. There are also changes in accounting over the life of the lease. In particular, companies will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.*"

A lessee recognises a right of use of an asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional recognition exemptions for short term leases and leases of low value items. The standard will affect primarily the accounting for the Group's operating leases. The Group intends to take advantage of the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments;
- To apply the recognition exception for leases with a term not exceeding 12 months and lease contracts for which the underlying asset is of low value;
- To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- To exclude initial direct costs from the measurement of the right of use asset.

The Group will recognise new assets and liabilities for its operating leases of commercial properties such as branches. The Group is in the process of finalising the assessment of the impact that the application of IFRS 16 will have on its financial statements in the period of initial application. The implementation is expected to increase the asset and financial liabilities by the same amount with no effect on equity or retained earnings of the Group, however, this will ultimately impact the Bank's Risk Weighted Assets and capital requirements.

ANNEX I – Summary of the Bank's Risk Appetite Statement

The Bank's Risk Appetite is determined so as not to exceed the risk capacity, given current business conditions, and ensure the Bank's operational smoothness, the implementation of its strategic objectives as well as the achievement of satisfactory performance. In parallel, it is ensured that under adverse business and macroeconomic conditions the risk capacity can absorb unexpected losses and/or commitments, safeguarding a minimum level of solvency as well as depositors' and shareholders' interests.

The risk appetite statements are in the form of qualitative statements and quantitative limits and indicate how the Bank addresses material risks at an aggregated level. The quantitative measures, specify the risk appetite statements in particular risk categories as defined by specific Key Risk Indicators (e.g. solvency risk, liquidity risk, etc.) which are utilized to monitor the Bank's Risk Profile.

The qualitative risk appetite statements delineate the Bank's position during the development and implementation of the Strategic Plan, both in general terms and in respect of special risk types. The quantitative statements are a set of key measurable indicators that define the maximum level of risk that the Bank wishes to undertake.

Some of the main Risk Appetite Statements are presented below:

RISK APPETITE STATEMENTS

- The overall Bank Risk Appetite Framework ("RAF") is set with due regard to current economic and business conditions.
- The RAF is dynamic and subject to revision from time to time to reflect changing economic and business conditions.
- The aim of the RAF is not to minimize risk per se but achieve a reasonable balance between risk and return, within an overall conservative perspective.
- The Bank must maintain sufficient liquidity and capital buffers and achieve stable and recurring profitability.
- The Bank aims to maintain a culture of continuous improvement of processes, policies, models and tools for measuring and monitoring risk exposures.
- The Bank aims to maintain an internal communication policy and culture that strengthens the confidence of customers, shareholders and employees.
- The Bank aims to ensure the availability and adequacy of resources necessary for the effective operation of the RAF.
- The Bank aims in the avoidance of any Anti-Money Laundering (AML) & Counter Terrorist Financing (CTF) risks.
- The Bank aims to take all necessary measures to ensure compliance with all applicable laws and regulations.

- The Bank aims to maintain a strong and stable capital base that supports its business plans and safeguards the ability to continue its operations smoothly.
- The Bank endeavors to maintain capital adequacy ratios in the medium term, above the minimum regulatory limits, in order to ensure the confidence of depositors and shareholders providing sufficient armor against the challenges of economic and business conditions.
- The Bank shall maintain adequate infrastructure, policies, processes and methodologies to support and meet the supervisory and regulatory compliance needs.

The following Key Risk Indicators are utilized to monitor the Bank's Risk Profile:

SOLVENCY RISK
CET1 Ratio 1
Total Capital Adequacy Ratio
Leverage Ratio
LIQUIDITY RISK
Liquid Assets/Deposits
LCR
NSFR
CREDIT RISK & ASSET QUALITY
NPE Ratio
NPE Provisions Coverage
90 DPD Ratio
Concentration Limits
OTHER LIMITS
Direct Exposures to Sovereign
Indirect Exposures to Sovereign
Non-Investment Grade Non-EU debt securities
PROFITABILITY
NIM (annualized YTD)
Cost to Income (excluding extraordinary income and expenses)
Return on Equity

The following table sets out a number of the Bank's Key Performance Indicators utilized to monitor its risk profile based on the actual results as at 31 December 2018:

Key Performance Indicators		2018	2017
Capital	CET1 and Total Capital (Transitional) Ratio	14,3%	17,0%
Efficiency	Net Interest Margin	1,9%	2,0%
	Cost / Income	78,9%	78,4%
	NPEs Provisions Coverage Ratio	56,0%	51,7%
	NPE Ratio	42,6%	56,2%
Liquidity	Liquid assets / Deposits	56,3%	55,2%
	Liquidity Coverage Ratio	552,9%	323,0%
Profitability	Return on Average Assets	0,8%	0,4%
	Return on Average Equity	8,7%	4,6%

Risk Appetite Monitoring and Escalation Process

The Risk Management Department monitors the Risk Appetite Limits regularly through early warning triggers and informs the Executive Management in order to trigger corrective actions. Breaches are also reported to the Board Risk Committee and Board at their next scheduled meeting or earlier if deemed necessary.

ANNEX II – Description of main features of CET1, AT1 and Tier 2 instruments

	CET1	AT1 & T2
Issuer	AstroBank	n/a
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier)	-	-
Governing law(s) of the instrument	Cyprus Law	n/a
Regulatory treatment		
Transitional CRR rules	CET1	n/a
Post-transitional CRR rules	CET1	n/a
Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	n/a
Instrument type	Share capital	n/a
Amount recognised in regulatory capital	€14,1mln	n/a
Nominal amount of instrument	€14.113.487	-
Issue price	€1,00	-
Redemption price	N/A	-
Accounting classification	Shareholders equity	-
Date of conversion of existing shares and issuance of new shares	28 December 2016	-
Original date of issuance	05 July 2007	-
Perpetual or dated	Perpetual	-
Original maturity date	No maturity	-
Issuer call subject to prior supervisory approval	n/a	-
Optional call date, contingent call dates and redemption amount	n/a	-
Subsequent call dates, if applicable	n/a	n/a
Coupons / dividends		
Fixed or floating dividend/coupon	Floating	n/a
Coupon rate and any related index	n/a	n/a
Existence of a dividend stopper	n/a	n/a
Fully discretionary, partially discretionary or mandatory (in terms of timing)	n/a	n/a
Fully discretionary, partially discretionary or mandatory (in terms of amount)	n/a	n/a
Existence of step up or other incentive to redeem	n/a	n/a
Non-cumulative or cumulative	n/a	n/a
Convertible or non-convertible	n/a	n/a
If convertible, conversion trigger(s)	n/a	n/a
If convertible, fully or partially	n/a	n/a
If convertible, conversion rate	n/a	n/a
If convertible, mandatory or optional conversion	n/a	n/a
If convertible, specify instrument type convertible into	n/a	n/a
If convertible, specify issuer of instrument it converts into	n/a	n/a
Write-down features	No	n/a
If write-down, write-down trigger(s)	n/a	n/a
If write-down, full or partial	n/a	n/a
If write-down, permanent or temporary	n/a	n/a
If temporary write-down, description of write-up mechanism	n/a	n/a
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a	n/a
Non-compliant transitional features	No	n/a
If yes, specify non-compliant features	n/a	n/a