The Cyprus Development Bank Group

DISCLOSURES
IN ACCORDANCE WITH PILLAR III OF BASEL III
FOR THE YEAR ENDED 31 DECEMBER 2016

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

JUNE 2017

The Cyprus Development Bank Group

Disclosures in accordance with Pillar III of Basel III
31 December 2016

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1. INTRODUCTION

The Cyprus Development Bank Public Company Limited (the "Company" or the "Group") was incorporated in the Republic of Cyprus in 1963. The Company's business name is "cdbbank" and is the parent company of the Cyprus Development Bank Group.

The principal activities of the Company are commercial banking operations.

2. SCOPE OF THE APPLICATION

The following information represents the Pillar III disclosures for the year ended 31 December 2016 in accordance with the requirements of Part Eight "Disclosures by Institutions" of the EU Regulation 575/2013 (the "Regulation" or "CRR"). The Group'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 Company's corporate website http://www.cdb.com.cy.

The Group's Pillar III disclosures are prepared by the Risk Manager and are also subject to internal review and validation by the Manager – Finance & Operations before these are submitted to the Board of Directors for approval. In addition, they are subject to external audit and an independent auditor's report is issued to the Central Bank of Cyprus, expressing their opinion on the fairness of the disclosures according to the CRR.

The Company discloses the required information on the basis of its consolidated financial position as described below. At 31 December 2016, the subsidiary companies were consolidated as follows, for accounting and regulatory purposes:

Subsidiary companies	% owned	Basis of consolidation for:		Principal Activities
		Accounting purposes	Regulatory purposes	
Global Capital Limited	84,64%	Full	Full	Portfolio management and the provision of financial advisory and brokerage services
cdbbank Russia	100,00%	Full	Full	Commercial banking operations

<u>Sale and purchase agreement of shares in (a) cdbbank Russia and (b) PCM Advisers Limited</u>
On 22 March 2017 an agreement was signed for the sale both of the entire share capital of Joint Stock Company cdbbank and for the assignment of the Bank's subordinated loan to its subsidiary of US$3m. The total consideration for these transactions is €6.150 thousand and they will become effective once the Central Bank of Russia approves the transfer of the shares to the new shareholders. An application for such approval has been filed.

On 15 January 2016 cdbbank signed an agreement for the sale of its wholly owned subsidiary PCM Advisers Limited. On 1 November 2016, following the requisite approval of the buyer by CySEC, the transfer of ownership from cdbbank to the buyer was completed, for a total consideration of €308 thousand.

3. GROUP GOVERNANCE AND GROUP RISK MANAGEMENT

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

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

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

3.1 Board of Directors and Committees

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

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

The RC meets regularly, at least on a quarterly basis. In 2016, the RC met nine times.

The RC receives formal and informal communication from the Bank's Risk Manager, and, where appropriate, has access to external expert advice, particularly in relation to strategic transactions and issues.

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

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

In addition, the Group has established a Risk Management Unit ("RMU") which is responsible for assessing and monitoring all risks of the Group. The RMU is also responsible for the Internal Capital Adequacy Assessment Process ("ICAAP") and for the Internal Liquidity Adequacy Assessment Process ("ILAAP").

The Bank has obtained the Central Bank's approval for combining the tasks of the Information Security Function with the tasks of the Risk Management Function. During 2016 and up to the end of March 2017 the RMU also had the managerial responsibility for Compliance and Anti-Money Laundering and Terrorist Financing.

The results and views of the RMU are discussed with Management and the RC to form a final position on the adequacy of the Group's capital.

The RMU reports to the Chief Executive Officer as well as directly to the RC. The RMU is administratively independent of all operational departments/units of the Company.

3.2 Board of Directors - Recruitment policy

Recruitment into the BoD combines an assessment of both technical capability and competency skills referenced against the Company's leadership framework.

The persons proposed for the appointment should have specialised skills and/or knowledge for performing their assigned responsibilities and must be able to commit the necessary time and effort to fulfill their responsibilities. Therefore, the Company is obtaining relevant constituents and/or recommendations and/or certificates proving the integrity, morals, credibility and ethos and the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them, while selecting the Members of the BoD.

The BoD consisted of seven Non-Executive Directors and one Executive Director as at 31 December 2016.

3.3 Board of Directors - Diversity Policy

To facilitate independent opinions and critical challenge, management bodies of institutions should be sufficiently diverse as regards age, gender, geographical provenance and educational and professional background to present a variety of views and experiences. Gender balance is of particular importance to ensure adequate representation of population.

The Company recognises the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences is considered when determining the optimum composition of the BoD.

3.4 Number of directorships held by members of the BoD

The following table provides the number of directorships a member of the BoD of the Company held at the same time in other entities as at 31 December 2016. 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 in the same group which, based on Article 91 of EU Directive 2013/36/EU ('CRDIV'), could have been considered as a single directorship.

Name of Director	Position within the Company	Directorships Executive	Directorships Non-Executive
Kyriacos Christofi	Chairman – Non-Executive	-	2
Andreas Loizou	Non-Executive Director	-	18
George Loizou	Non-Executive Director	-	-
Neoclis Nicolaou	Non-Executive Director	-	5
Sergey Novikov	Non-Executive Director	-	1
George Pavlides	Non-Executive Director	-	11
Menelaos Shiacolas	Non-Executive Director	1	6
Andri Georghiou	Executive Director	-	1

3.5 Information flow on risk to the BoD

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

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

3.6 Board Declaration - Adequacy of the Risk Management arrangements

The BoD is ultimately responsible for the risk management framework of the Company. The BoD provides an annual declaration on the adequacy of the Company’s risk management arrangements and provides assurances that the risk management systems in place are adequate in relation to the Company’s strategy and risk profile. This is provided in Annex I of this document.

3.7 Risk Statement

A summary of the Board’s Risk Appetite Statement is provided in Annex II.

4. CAPITAL BASE

The Group's regulatory capital is comprised solely by Common Equity Tier 1 (CET1) items. The Group's CET1 capital includes ordinary share capital, share premium, reserves and minority interest. The Bank deducts from its CET1 capital its intangible assets (software and goodwill).

The own funds of the Group as at 31 December 2016 are shown in the table below:

	2016 €000
Original own funds (Tier 1 Capital)	
Common Equity Tier 1 Capital (CET1 Capital)	
Share capital	35.164
Share premium	11.211
Retained earnings	-3.356
Accumulated other comprehensive income	-1.569
Other Reserves	90
Minority Interest	106
(-) Other Intangible assets	-621
Other transitional adjustments to CET1 Capital	0
Total Common Equity Tier 1 Capital (CET1 Capital)	**41.025**
Additional Tier 1 Capital (AT1 Capital)	0
Total Original own funds (Tier 1 Capital)	**41.025**
Additional own funds (Tier 2 Capital)	0
Tier 2 Capital	**0**
Total own funds (Tier 1 Capital + Tier 2 Capital)	**41.025**

As at 31 December 2016, the Central Bank of Cyprus (CBC) required the Company to maintain capital which, at any time, is equal to or exceeds the minimum ratio of 8,635% of its risk weighted assets. The capital adequacy ratio of 8,635% includes the required by the Law combined buffer, which at the end of 2016 amounted to 0,635% of risk-weighted assets and included the Capital Conservation Buffer (0,625%) and the Countercyclical Capital Buffer (0,01%). The Capital Conservation Buffer for the period 1 January 2017 up to 31 December 2017 will amount to 1,25%.

The Group's capital adequacy ratios as at 31 December 2016 are the following:

- Common Equity Tier 1 ratio : 11,45%
- Tier 1 ratio : 11,45%
- Capital Adequacy Ratio : 11,45%

Share Capital
The total number of fully paid shares at 31 December 2016 amounted to 12.961.354 Class "A" shares of nominal value €1,71 each and 13.000.000 Class "B" shares of nominal value €1,00 each (there were no changes compared to 31.12.2015).

In February 2017, the Central Bank of Cyprus, based on its Supervisory Review and Evaluation Process (SREP) for 2016 required the Group to increase its capital base by €14 million and to maintain on a consolidated basis a total Capital Requirement of 14.45% from the actual capital adequacy ratio of 11,45% as at 31 December 2016 (comprising 8% Pillar I requirement plus an own funds requirement of 5,2% required to be maintained at all times in the form of CET1 capital and the capital conservation buffer, which currently stands at 1.25% of its risk weighted assets. The Bank considers that it will not have any requirements in relation to the Countercyclical Capital Buffer). The Company is currently taking steps to comply with the set capital requirement.

4.1 Owns Funds - Balance sheet reconciliation & specific items of Own Funds during the transitional period

A reconciliation of Own Funds to audited financial positions in the Annual Financial Statements as described in point (a) of Article 437 (1) of CRR is required which should include all items that are components of or are deducted from regulatory Own Funds. The own funds and balance sheet reconciliation as at 31 December 2016 are disclosed in ***Annex III***.

4.2 Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued by institutions

Article 437 of the CRR requires disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments. The Company does not have any forms of Additional Tier 1 or Tier 2 instruments therefore the information that is provided in ***Annex IV*** refers only to Common Equity Tier 1 instruments.

4.3 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.

To this respect, the table below provides information on the geographical distribution of credit exposures relevant for the calculation of the Company's countercyclical capital buffer as at 31 December 2016. Exposures to foreign countries which did not exceed 10% of the total, 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	414.896	23.099	-	-	23.099	95,30%	0%
Norway	1.049	84	-	-	84	0,35%	1,50%
Other	18.684	1.054	-	-	1.054	4,35%	0%
Total	**434.629**	**24.237**	**-**	**-**	**24.237**	**100%**	

The following table presents the amount of institution-specific countercyclical capital buffer of the Company, as at 31 December 2016.

Amount of institution-specific countercyclical capital buffer	**€000**
Total Risk Exposure Amount	434.629
Institution specific countercyclical buffer rate	0,01%
Institution specific countercyclical buffer requirement	18,62

5. CAPITAL REQUIREMENTS

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

The capital required to be maintained by the Group as at 31 December 2016 was as follows:

Risk type	**Pillar 1 Capital Requirements €000**
Credit risk	26.311
Market risk	176
Operational risk	2.154
CVA risk	11
Total capital requirements	**28.652**

6. CREDIT RISK

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

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

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

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

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

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

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

6.4 Standardised Approach for Credit risk
The minimum capital requirement for Credit risk is calculated by exposure using a factor of 8% as defined by the Regulation. The following table shows the risk-weighted group exposure amounts and the corresponding minimum capital requirements as at 31 December 2016, for each of the

exposure classes, based on the Standardised Approach.

	Risk weighted amounts €000	Minimum capital requirements €000
Exposure class		
Central governments or central banks	569	46
Institutions	25.355	2.028
Corporate	123.940	9.915
Retail	12.469	998
Secured by mortgages on immovable property	23.546	1.884
Exposures in default	68.077	5.446
Items associated with particular high risk	64.962	5.197
Equity	637	51
Other Items	9.332	746
Total	**328.887**	**26.311**

6.5 Credit risk mitigation

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

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

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

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

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

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

The Group has used the credit step mapping table below to map the credit assessment to credit quality steps.

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

Breakdown by Credit Quality Steps	**Exposure values before credit risk mitigation and net of provisions €000**	**Exposure values after credit risk mitigation and net of specific provisions €000**
CQS 1	105.269	105.269
CQS 2	90	90
CQS 3	1.146	1.146
CQS 4	115.474	116.560
CQS 5	20.951	20.951
CQS 6	53	53
Unrated/Not Applicable	358.416	349.774
Total	**601.399**	**593.843**

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

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

	Funded Credit Protection €000	**Unfunded Credit Protection €000**
Exposure class		
Central governments or central banks	-	-
Institutions	-	-
Corporate	6.028	-

Retail	1.181	-
Secured by mortgages on immovable property	-	-
Exposures in default	348	1.085
Items associated with particular high risk	-	-
Equity	-	-
Other Items	-	-
Total	**7.557**	**1.085**

6.6 Risk of impairment

Past due items
Past due items represent loans and advances where the borrower has failed to make a payment when it is contractually due or the account has been rescheduled. Past due items also include loans and advances for which capital provision has been raised or the interest is suspended.

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

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

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

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

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

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

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

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

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

Impaired and Past Due Exposures and the corresponding Provisions by Counterparty Country of Origin	**Cyprus €000**	**Russia €000**	**Other €000**	**Total €000**
Impaired Exposures	249.720	8.692	95	258.507
Past Due Exposures	104.693	5.100	65	109.858
Past Due But Not Impaired Exposures	10.960	-	1	10.961
Total Exposure Before Provisions	**260.680**	**8.692**	**96**	**269.468**
Provisions[1]	**65.137**	**3.260**	**64**	**68.461**
Provisions of which Specific	*63.284*	*2.834*	*63*	*66.181*
Total Exposure After Provisions	**195.543**	**5.432**	**32**	**201.007**

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

Impaired and Exposures with Days Past Due and the corresponding Provisions pre and after the application of the respective provisions by industry	**Impaired Exposures €000**	**Exposures with Days Past Due €000**	**Of which: Exposures with Days Past Due Not Impaired €000**	**Total Impaired or Past Due Exposure Before Provisions €000**	**Provisions €000**	**Provisions of which Specific €000**	**Total Exposure After Provisions €000**
1. Construction & Real Estate	45.458	7.808	657	**46.115**	**11.638**	*11.414*	**34.477**
2. Hotels, Restaurants & Bars	18.639	25.901	1.599	**20.238**	**4.708**	*4.616*	**15.530**
3. Manufacturing	43.478	25.688	1.004	**44.482**	**16.864**	*16.590*	**27.618**
4. Wholesale & Retail Trade	36.570	20.755	7.435	**44.005**	**3.010**	*2.307*	**40.995**

[1] It includes also equity impairment

5. Services	5.599	2.149	0	**5.599**	**1.018**	*994*	**4.581**
6. Health & Social Work	540	610	0	**540**	**72**	*65*	**468**
7. Transport, Storage & Telecommunication	24.767	3.649	115	**24.882**	**5.125**	*4.787*	**19.757**
8. Financial & Insurance	5.892	0	0	**5.892**	**1.000**	*865*	**4.892**
9. Other	27.833	15.096	1	**27.834**	**10.415**	*10.259*	**17.419**
10. Private Individuals	49.731	8.202	150	**49.881**	**14.611**	*14.284*	**35.270**
Total	**258.507**	**109.858**	**10.961**	**269.468**	**68.461**	***66.181***	**201.007**

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

2016	**Cyprus €000**	**Other €000**	**Total €000**
Balance 1 January 2016	54.697	1.683	**56.380**
Exchange differences	10	563	**573**
Loans and advances written off	(624)	(458)	**(1.082)**
Income suspended for the year	8.366	767	**9.133**
Charge for the year	7.300	769	**8.069**
Release of provisions and recoveries	(4.612)	-	**(4.612)**
Balance 31 December 2016	**65.137**	**3.324**	**68.461**
Individual impairment	**63.284**	**2.897**	**66.181**
Collective impairment	**1.853**	**427**	**2.280**

6.7 Average exposure values during 2016 analysed by asset class

Exposure class	**Original exposure values net of provisions €000**	**Average exposure €000**
Central governments or central banks	116.495	132.964
Regional governments or local authorities	-	1.169
Institutions	126.529	70.016
Corporates	158.532	160.091
Retail	30.929	30.032
Secured by mortgages on immovable property	54.760	64.190
Exposures in default	56.722	64.522
Items associated with particular high risk	44.467	37.478
Short-term claims on institutions and corporates	-	129
Equity	637	593
Other Items	12.328	9.937
Total	**601.399**	**571.121**

6.8 Total original exposure values, net of provisions, analysed by country of incorporation of counterparties

Exposures per Asset Class per Country of incorporation of Counterparty	**Cyprus €000**	**United Kingdom €000**	**Russia €000**	**United States €000**	**Other €000**	**Total €000**
Central Governments and Central Banks	115.357	-	1.138	-	-	**116.495**
Institutions	21.162	4.310	-	4.319	96.738	**126.529**
Corporates	152.748	-	4.732	-	1.052	**158.532**
Retail	29.731	-	996	-	202	**30.929**
Secured by mortgages on imm. property	50.322	-	4.438	-	-	**54.760**
Exposures in default	54.454	-	2.267	-	1	**56.722**
Items associated with particular high risk	43.239	1.158	70	-	-	**44.467**
Equity	637	-	-	-	-	**637**
Other Items	10.833	-	1.495	-	-	**12.328**
Total	**478.483**	**5.468**	**15.136**	**4.319**	**97.993**	**601.399**

6.9 Total original exposure values, net of provisions, analysed by industry segment

€000	**Construction & RE**	**Hotels, Restaurants & Bars**	**Manufacturing**	**Wholesale &Retail Trade**	**Services**	**Health & Social Work**	**Transport,Storage &Tele/ion**	**Financial /Insurance**	**Other**	**Private Individuals**	**NA**	**Total**
Central Gov/ Central Banks					34.611			81.884				**116.495**
Institutions								126.529				**126.529**
Corporates	31.460	3.915	13.947	49.883	3.745	1.004	25.666	12.875	9.414	6.623		**158.532**
of which SME	***11.422***	***3.560***	***6.802***	***9.715***	***3.745***	***1.004***	***10.315***	***746***	***6.444***			***53.753***
Retail	2.090	1.509	2.632	5.094	4.340	1.024	3.296	1.077	4.377	5.490		**30.929**
of which SME	***1.737***	***1.504***	***2.389***	***4.773***	***4.134***	***458***	***1.149***	***1.077***	***2.896***			***20.117***
Secured by mortgages on Imm. property	4.697	392	7.483	12.341	498	626	1.314	6.798	10.882	9.729		**54.760**
of which SME	***3.963***	***46***	***6.794***	***8.273***	***498***	***564***	***1.282***	***6.798***	***10.856***			***39.074***
Default	5.183	20.219	7.876	11.601	197	104	487	0	5.899	5.156		**56.722**
Items associated with particular high risk	44.140									257	70	**44.467**
Equity											637	**637**
Other Items											12.328	**12.328**
Total	**87.570**	**26.035**	**31.938**	**78.919**	**43.391**	**2.758**	**30.763**	**229.163**	**30.572**	**27.255**	**13.035**	**601.399**

6.10 Total exposure values analysed by industry segment before and after provisions

Total Exposure pre and after the application of the respective provisions by industry	**Total Exposure Before Provisions**	**Provisions**	**Total Exposure After Provisions**
	€000	**€000**	**€000**
1. Construction & Real Estate	101.985	-14.415	87.570
2. Hotels, Restaurants & Bars	31.745	-5.710	26.035
3. Manufacturing	51.508	-19.570	31.938
4. Wholesale & Retail Trade	90.125	-11.206	78.919
5. Services	45.461	-2.070	43.391
6. Health & Social Work	3.273	-515	2.758
7. Transport, Storage & Telecommunication	34.198	-3.435	30.763
8. Financial & Insurance	229.236	-73	229.163
9. Other	40.729	-10.157	30.572
10. Private Individuals	30.908	-3.653	27.255
11. Not applicable	18.486	-5.451	13.035
Total	**677.654**	**-76.255**	**601.399**

6.11 Exposures in default and respective provisions by country of incorporation of counterparties

Exposures in default and the respective Provisions by Counterparty Country of Incorporation	**Cyprus**	**Russia**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**
Total Exposure Before Provisions	104.693	5.100	65	**109.858**
Provisions	-50.239	-2.833	-64	**-53.136**
Total Exposure After Provisions	**54.454**	**2.267**	**1**	**56.722**

6.12 Original Exposure values, net of provision, by residual maturity

Asset Class	< 1 month €000	1 – 3 months €000	3 – 12 months €000	1 – 5 years €000	> 5 years €000	Undefined €000	Total €000
Central Governments and Central Banks	86.095	8.976	-	2.776	18.648	-	116.495
Institutions	116.966	932	-	8.631	-	-	126.529
Corporates	7.743	5.073	81.297	10.643	44.166	9.610	158.532
Retail	773	157	15.300	4.530	7.703	2.466	30.929
Secured by mortgages on immovable property	-	-	11.264	9.106	34.390	-	54.760
Exposures in default	1.540	-	8.556	6.799	34.018	5.809	56.722
Items associated with particular high risk	1	-	1.410	5.506	28.450	9.100	44.467
Equity	-	-	-	-	-	637	637
Other Items	-	-	-	-	-	12.328	12.328
Total	**213.118**	**15.138**	**117.827**	**47.991**	**167.375**	**39.950**	**601.399**

6.13 Counterparty Credit Risk (CCR)

Derivatives

Derivatives consisted entirely of forward exchange rate contracts. The exposure amount, which represents the sum of the current replacement cost and potential future credit exposure, is calculated using the "Mark-to-Market Method".

Derivative Contracts	Current Replacement Cost €000	Nominal Value €000	Exposure amount €000	Capital Requirement €000
Forward Exchange rate contracts (gain)	114	5.000	164	7
Forward Exchange rate contracts (loss)	(83)	2.980	30	1
Total	**31**	**7.980**	**194**	**8**

6.14 Wrong Way Risk

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

The Company's Credit Risk Policy prohibits the recognition of securities issued by the obligor, or any related group entity, as eligible collateral for credit risk purposes, therefore, the Company has no exposure to wrong-way risk.

6.15 Internal Capital Adequacy Assessment Process

The Group has adopted the "Pillar I Plus" approach for its internal capital adequacy assessment process. In accordance with this approach, the Group quantifies the capital requirements, over and above the Pillar I minimum requirement. The allocation of capital for Pillar II purposes takes into consideration the risks that have been assessed internally as "material", through the risk assessment as well as the stress tests performed. All risks falling outside the Group's risk appetite are considered to be threats to the Group and are covered with additional capital or additional controls.

7. MARKET AND LIQUIDITY RISK

7.1 Definition of market risk

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

Market risk is analysed into the following types of risks:

i. Risk from changes in the value of investments

Equity Investments

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

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

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

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

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

The Group establishes a policy relating to revaluation of equity investments at their assessed fair value, as well as the recognition of permanent diminution in value. Also, the Group establishes the policies and exposure limits for its equity financing activities so that equity financing is provided where the assessed risk is considered to be within acceptable boundaries in accordance with the investment management policies and within the limits set. Equity investments are closely monitored on a continuous basis.

Investments in Equities	**The Group 2016 €000**
Cost	
Balance 1 January	9.995
Acquisitions	-
Disposals	(131)
Balance 31 December	9.824
Permanent diminution	
Balance 1 January	(9.180)
Disposals	-
Charge for the year	-
Balance 31 December	(9.180)
Revaluation at fair value	
Balance 1 January	(8)
(Decrease)/Increase in fair value	4
Permanent diminution	-
Disposals	(3)
Balance 31 December	(7)
Balance 31 December at fair value	**637**

The Group's cumulative realized gains arising from sales and liquidations equal to €0. The total unrealized losses included in the original own funds of the group as at the reference date amounts to €7.000.

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

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

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

Investments:

	2016 **€000**
Equity investments - available for sale	637
Listed investments	*589*
Unlisted investments	*48*
Debt securities - held to maturity	44.291
Listed investments	*44.291*
Unlisted investments	*-*
Total fair value of investments	**44.928**

Held to maturity	**2016** **€000**
Government bonds Republic of Cyprus	21.424
Treasury bills Republic of Cyprus	13.187
Corporate bonds	9.680
Total	**44.291**

ii. Interest rate risk

Interest rate risk arises as a result of changes in the rates of interest and repricing timing mismatches on assets and liabilities. The Group closely monitors on a continuous basis, fluctuations in interest rates and the relationship of assets and liabilities, which are subject to interest rates fluctuations, and takes measures to contain in acceptable levels the effects of these changes on the Group's profitability.

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

The interest rate sensitivity gap analysis indicating the effect on the Group's profit of changes in interest rates as at 31 December 2016 is shown in the table below:

	≤ 1 month €000	1-3 months €000	3-12 months €000	1-5 years €000	> 5 years €000	Non-interest bearing €000	Total €000
Net position	260.697	(40.385)	(51.513)	(6.550)	18.648	(180.897)	-
Change in interest rates -1%:							
effect on profit	(2.607)	404	515	66	(186)	-	(1.808)
Change in interest rates +1%:							
effect on profit	2.607	(404)	(515)	(66)	186	-	1.808

iii. Currency risk

Currency risk from adverse movements in the rates of exchange arises when there is a net currency position (asset or liability) in one or more currencies. Net currency positions are monitored on a continuous basis and the Group takes such measures so that this risk is contained within acceptable boundaries. The foreign exchange position limits prescribed by the Central Bank of Cyprus are adhered to.

The foreign exchange risk resulting from the net foreign exchange positions of the Group at 31 December 2016 are set out below. The sensitivity analysis assumes reasonable possible changes in exchange rates of major currencies against the Euro, based on past rate fluctuations.

Currency	Net open position €000	Change in exchange rates %	Effect on profits €000
US Dollar	91	+10,0	9
British pound	2	+10,0	-
Russian Rouble	(141)	+30,0	(42)
Other currencies	51	+10,0	5

Currency	Net open position €000	Change in exchange rates %	Effect on profits €000
US Dollar	91	-10,0	(9)
British pound	2	-10,0	-
Russian Rouble	(141)	-30,0	42
Other currencies	51	-10,0	(5)

7.2 Capital requirement for market risk
The Group has adopted the Standardised Approach for the calculation of capital requirements with respect to market risk. The Group does not hold any positions in traded debt instruments or equities and hence capital requirement arises only for foreign exchange risk (if any).

The capital requirement for market risk as at 31 December 2016 is shown in the table below:

Capital requirement:	2016 €000
Market risk	176

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

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

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

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

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

8. OPERATIONAL RISK

8.1 Definition of Operational Risk

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

8.2 Operational risk management

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

- Segregation of duties, including independent authorisation of transactions, the reconciliation and monitoring of transactions, documentation of controls and procedures;
- Compliance with regulatory and other legal requirements;
- Development of business continuity plans and disaster recovery plans;
- Personnel training;
- Risk mitigation by taking out insurance cover.

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

8.3 Capital requirements for operational risk

The Group applies the Basic Indicator Approach as the basis for estimating the amount of capital required under the Regulation.

The capital requirement for operational risk as at 31 December 2016 is shown in the table below:

Capital requirement:	**2016 €000**
Operational risk	**2.154**

9. ASSET ENCUMBRANCE

Asset encumbrance means pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

9.1 Encumbered and unencumbered assets by asset type

2016	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	637	637
Debt securities	-	-	44.291	45.189
Other assets	2.820	n/a	498.414	n/a
Assets of the reporting institution	**2.820**	**n/a**	**543.342**	**n/a**

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements. An asset is classified as unencumbered if it has not been pledged against an existing liability.

9.2 Collateral received by product type

2016	Fair value of encumbered collateral received or own debt securities issued €000	Fair value of collateral received or own debt securities issued available for encumbrance €000
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Collateral received by reporting institution	**-**	**-**

9.3 Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	€000	**€000**
Carrying amount of selected financial liabilities	**70**	**2.820**

10. LEVERAGE RATIO AND DISCLOSURE REQUIREMENTS

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

The Leverage Ratio is defined as the capital measure (i.e. the Group's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regards to the Leverage Ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar I minimum capital requirement on 1 January 2018. The Group calculates its Leverage Ratio as at the end of each quarter.

The minimum requirement ratio for the purposes of the Leverage Ratio is currently set at 3%. The Bank's Leverage Ratio as at 31 December 2016 amounted to 7,26%. During 2016 the Leverage Ratio ranged between 7,26% (31 December 2016) and 8,19% (recorded on 31 March 2016). The main reason for the decline in the Leverage Ratio over the period was the increase in the exposure measure, led primarily by the increase in the Company's exposure to institutions.

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

The table below provides a reconciliation of accounting assets and leverage ratio exposures.

31 December 2016		**Applicable Amounts €000s**
1	Total assets as per published financial statements	538.196
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	80
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)	27.106
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	-521
8	**Total leverage ratio exposure**	**564.861**

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

31 December 2016		CRR leverage ratio exposures €000s
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	538.182
2	(Asset amounts deducted in determining Tier 1 capital)	-621
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**537.561**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	114
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	80
11	**Total derivative exposures**	**194**
Securities financing transaction exposures		
16	**Total securities financing transaction exposures**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	63.927
18	(Adjustments for conversion to credit equivalent amounts)	-36.821
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**27.106**
Capital and total exposures		
20	**Tier 1 capital**	**41.025**
21	**Total leverage ratio exposures**	**564.861**
Leverage ratio		
22	**Leverage ratio (transitional definition)**	**7,26%**

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

31 December 2016	CRR leverage ratio exposures €000s
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**537.561**
Trading book exposures	-
Banking book exposures, of which:	537.651
Covered bonds	-
Exposures treated as sovereigns	*116.495*
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	*126.346*
Secured by mortgages of immovable properties	*54.008*
Retail exposures	*18.136*
Corporate	*109.581*
Exposures in default	*56.722*
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	*56.273*

11. REMUNERATION DISCLOSURES

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

11.1 Nomination and Remuneration Committee

Within the authority delegated by the BoD, the NR Committee is responsible for the following matters:

Nomination matters

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

Remuneration Matters

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

Human Resources Matters

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

The members of the NR Committee at 31 December 2016 were Messrs K. Christofi – Chairman, N. Nicolaou, G. Loizou and M. Shiacolas, all of which were non-executive directors in the Company's Board.

Seven meetings of the Nomination and Remuneration Committee were held during 2016. No external advisers were used by the NR Committee in 2016.

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

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

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

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

11.3 Analysis of remuneration of the Board of Directors

	2016	
	No.	**€'000**
Non-executive Directors	7[2]	150
Fees		145
Expenses		5

Non-executive directors receive a fixed remuneration package approved by the NR Committee each year.

11.4 Analysis of remuneration of senior management and other code staff

	Senior Management[3]	**Other Code Staff[4]**	**Total**
Number of beneficiaries	4	23	**27**
Fixed remuneration – Total cost - €'000	551	1.412	**1.963**
Variable remuneration	-	-	**-**
Total remuneration – Total cost - €'000	551	1.412	**1.963**
Outstanding deferred remuneration	-	-	-
New sign-on payments / severance payments	-	-	-

[2] As at 31 December 2016.
[3] Senior Management includes the Executive Directors, the CEOs of the parent and subsidiary companies comprising the Group (from the date of their appointment and/or up to the date of their resignation). The former CEO of the Company was also an Executive Director of the Company with NIL remuneration as a Director. The current Acting CEO of the Company is not a member of the Management Body.
[4] Other Code Staff includes staff whose actions could have a material impact on the Group's risk profile.

11.5 Analysis of remuneration by business area

	Senior Management	Retail Banking	Investment Banking	Corporate Functions	Independent Control Functions	**Total**
Fixed remuneration – Total cost - €'000	551	450	99	691	172	**1.963**

The number of persons employed by the Group as at 31 December 2016 was 178.

12. OPERATING ENVIRONMENT

According to the Cyprus Statistical Service, economic growth for 2016 was estimated at 2,8% compared to 2015. Even though the financial services sector showed a negative growth, there has been an increase in the Gross Domestic Product which is mainly attributed to the tourism, construction, manufacturing and the wholesale and retail trade sectors. The economic growth was mainly driven by the increase in private consumption, which benefited from the reduction in unemployment and the consequent increase in disposable income. The growth was also supported by the slower pace of reductions in public spending and the increase in investments. The international credit rating agencies have upgraded the rating of Cyprus. In particular, in March 2017 S&P Global Rating upgraded the rating of Cyprus from BB to BB+.

The banking sector seems to regain its confidence lost in the period 2013-2015, when it lost a significant part of its customer deposits. In 2016 deposits grew by 6,2% compared to 2015 despite low deposit rates. The confidence towards the banking system is the result of positive economic performance, and its upgrading by international rating agencies. Moody's rating agency predicts growth for the Cyprus Economy of 2,7% for 2017 and 2,5% for 2018.

The challenges of the financial sector are mainly related to the high level of non-performing exposures (NPEs) and the limited availability of credit. The high level of NPEs impacts on the banks' profitability and financial position through non-recognition of income and higher provisions. At the same time the real estate market which is a significant driver of the provisions for impairment of customer loans and advances continues to be subdued and places further pressure on profitability. The Group focuses on restructuring loans in a sustainable manner and on mutually beneficial terms.

The Group has managed to navigate successfully through the banking crisis, maintaining its reputation and focusing on its market positioning. The Group ensures its smooth operational efficiency by maintaining healthy liquidity to allow it to exploit healthy credit opportunities while focusing on growth.

The Directors and Management of the Group are not in a position to assess future developments which could have an impact on the Cyprus Economy and, as a result, on the future financial performance, cash flows and financial position of the Group. The Directors and Management of the Group take all necessary measures and actions possible to maintain the viability of the Group and strengthen and maintain an adequate capital base in order to comply with minimum supervisory capital requirements.

13. OTHER INFORMATION

In addition to these disclosures, Note 32 of the Financial Statements of the Group / Company for the year ended 31 December 2016 provides additional information on financial risk management.

ANNEX I – Board Risk Management Declaration

The Board of Directors is responsible for reviewing the effectiveness of the Group'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 Board of Directors considers that it has in place adequate systems and controls with regard to the Group's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

ANNEX II – Summary of the Board's Risk Appetite Statement

The Group's strategic priorities include the improvement of asset quality and effective management of non-performing exposures, strengthening of the Internal Banking Business as well as fee generated business, strengthening of the liquidity position, as well as maintaining the capital adequacy of the Group by internally generating capital through profitability. The Group aims to have in place robust risk management policies and practices so as to ensure the level of risk it faces is consistent with the Group's risk appetite and corporate objectives.

Risk is inherent in every material business activity that the Bank and the Group undertake. The Bank's business exposes it to strategic, credit, market, liquidity, compliance, operational and reputational risks. The Bank must therefore manage these risks to maximise its long-term results by ensuring the integrity of its assets and the quality of its earnings.

In choosing when and how to take risks, the Bank evaluates its capacity for risk and seeks to protect its name and reputation, the value of its assets, the strategic potential of the Bank as well as to protect its customers, employees and shareholders. The Bank's risks are managed through detailed policies, limits on activities and processes that emphasise the importance of integrity, intelligent inquiry, maintaining high quality staff and public accountability.

Risk Appetite

Risk appetite[5] is the amount and type of risk the Bank is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk.

The Risk Appetite Statement is the formal articulation of the Bank's willingness to take on certain risks and avoid or minimise other risks in the pursuit of its strategic objectives.

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

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

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

[5] Financial Stability Board, November 2013

Risk Bearing Capacity

The Bank defines its risk bearing capacity as the ability to absorb risks without unacceptable damage to its earnings and capital levels, to the current business plan objectives, as well as to its overall reputation. The risk bearing capacity assists the Bank to monitor the risks it faces and to manage them appropriately as it represents the maximum amount of risk that the Bank can maintain.

The risk bearing capacity is expressed as the level of available internal capital the Bank possesses to absorb risks. The Bank must hold a capital level at least equal to the current Internal Capital Adequacy Assessment Process (ICAAP) level as determined by the BoD.

Risk Management Process and Policies

The Bank places great emphasis on robust risk governance processes and policies as they form part of the decision-making process, in order to ensure that risk issues, risk mitigants and the cost of accepting or managing risks are taken into account.

The risk management process is integrated within the Bank through established internal policies, systems, controls and comprehensive reporting. The system of internal controls provides reasonable assurance for the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. The risk management process provides for the continuous monitoring of the system of internal controls to ensure its effectiveness.

The Bank's risk management process also provides for the continuous training of its employees to ensure that the Bank's policies and procedures are being adhered to by all employees at all times.

According to the Financial Stability Board (November 2013), risk limits should clearly set out the qualitative or quantitative parameters used in assessing a specific category of risk and also a measurement of the aggregate amount of that risk. Risk limits need to be measurable and specific.

As part of its risk management process the Bank has approved various limits which have to be adhered to at all times.

ANNEX III – Own funds reconciliation

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

Reconciliation of balance sheet with own funds calculations	31 December 2016 €000
Total Equity per Group consolidated financial statements	**41.727**
(-) Intangible assets	(621)
(-) Transitional adjustments for unrealised gains of assets and liabilities measured at fair value	-
(-) Transitional adjustments on minority interests	(81)
Total Common Equity Tier 1	**41.025**
Additional Tier 1	**-**
Total Tier 1	**41.025**
Tier 2	-
Total Tier 2	**-**
Total Own funds	**41.025**

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

	CET1	T2
Issuer	The Cyprus Development Bank	n/a
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier)	-	-
Governing law(s) of the instrument	Cyprus Law	n/a
Regulatory treatment		
Trasitional CRR rules	CET1	n/a
Post-trasitional CRR rules	CET1	n/a
Eligibel at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	n/a
Instrument type	Share capital	n/a
Amount recognised in regulatory capital	EUR 35,2mln	n/a
Nominal amount of instrument	12.961.354 – Class A 13.000.000 – Class B	- -
Issue price	EUR 1,71 for Class A EUR 1,00 for Class B	-
Redemption price	N/A	-
Accounting classification	Shareholders equity	-
Date of conversion of existing shares and issuance of new shares	5 November 2014	-
Original date of issuance		-
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	n/a	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

ANNEX V – Own Funds Disclosure

The table below discloses the components of regulatory capital as at 31 December 2016 during the transitional and fully phased-in period.

This disclosure has been prepared using the format set out in Annex VI of the "Commission Implementing Regulation (EU) No 1423/2013", which lays down implementing technical standards with regards to disclosure of own funds requirements, for institutions according to the Regulation.

Common Equity Tier 1 capital: instruments and reserves	**Transitional Definition €'000**	**Fully Phased in Definition €'000**
Capital instruments and the related share premium accounts	46.375	46.375
Retained earnings	-1.320	-1.320
Accumulated other comprehensive income (and other reserves)	-1.479	-1.479
Funds for general banking risk	-	-
Minority interest (amount allowed in consolidated CET1)	106	51
Independently reviewed interim profits net of any foreseeable charge or dividend	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**43.682**	**43.627**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability) (negative amount)	-621	-621
Losses for the current financial year (negative amount)	-2.036	-2.036
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre -CRR treatment	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-2.657**	**-2.657**
Common Equity Tier 1 (CET1) capital	**41.025**	**40.970**
Additional Tier 1 (AT1) capital: instruments		
Additional Tier 1 (AT1) capital before regulatory adjustments	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**41.025**	**40.970**
Tier 2 (T2) capital: instruments and provisions		
Capital instruments and the related share premium accounts	-	-
Credit risk adjustments	-	-
Tier 2 (T2) capital before regulatory adjustments	-	-
Tier 2 (T2) capital: regulatory adjustments		
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre CRR	-	-
Of which: possible filter for unrealised gains	-	-
Total regulatory adjustments to Tier 2 (T2)	**-**	**-**
Tier 2 (T2) capital	**-**	**-**
Total capital (TC = T1 + T2)	**41.025**	**40.970**
Total risk weighted assets	**358.150**	**358.150**

Capital ratios		
Common Equity Tier 1 (as a % of risk exposure amount)	**11,45%**	**11,44%**
Tier 1 (as a % of risk exposure amount)	**11,45%**	**11,44%**
Total capital (as a % of risk exposures amount)	**11,45%**	**11,44%**

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

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

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