NATIONAL BANK OF GREECE
(CYPRUS) LIMITED

Report and Financial Statements
Year ended 31 December 2017

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

Board of Directors:	
Chair of the Board:	Louka Katseli, Independent Non-Excecutive Member
Vice Chairman A':	Paul Mylonas, Non-Executive Member
Vice Chairman B':	Marinis Stratopoulos, Non-Executive Member (appointed as Executive Member of the Board (CEO) during the period between 28 July 2017 – 29 November 2017)
Members:	Christos Christodoulou, Managing Director (CEO), Executive Member (appointed on 29 November 2017) Ioannis Tzimos, General Manager, Executive Member Stavros Stavrou, Senior Independent, Non-Executive Member Mark Klerides, Independent, Non-Executive Member Christodoulos Seferis, Independent Non-Executive Member (appointed on 28 July 2017) Nicolaos Th. Beis, Managing Director, Executive Member (resigned on 28 July 2017) Fotini Ioannou, Non-Executive Member (resigned on 28 July 2017)

The Board of Directors, as at 31.12.2017 comprised the following Members:

Chair of the Board:	Louka Katseli, Independent, Non-Executive Member
Vice Chairman A':	Paul Mylonas, Non-Executive Member
Vice Chairman B':	Marinis Stratopoulos, Non-Executive Member
Members:	Stavros Stavrou, Senior Independent, Non-Executive Member Christos Christodoulou, Managing Director (CEO), Executive Member Christodoulos Seferis, Independent, Non-Executive Member Ioannis Tzimos, Executive Member Mark Klerides, Independent, Non-Executive Member
Secretary	Lucia Pagdati 15 Arch. Makarios III, 1065 Nicosia, Cyprus
Independent Auditors	PricewaterhouseCoopers Limited 43 Demostheni Severi Avenue, 1080 Nicosia, Cyprus
Legal Advisers	Chrysses Demetriades & Co Velaris & Velaris LLC
Registered Office	15 Arch. Makarios III, 1065 Nicosia, Cyprus

MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2017

The Board of Directors presents the management report together with the audited financial statements of the Bank for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The main activity of the Bank is the provision of a wide range of banking and financial services. The Bank is a wholly owned subsidiary of National Bank of Greece S.A. Group.

OPERATING ENVIRONMENT

The operating environment of the Bank is presented in Note 35 of the financial statements.

REVIEW OF DEVELOPMENTS, POSITION AND PERFORMANCE OF THE BANK'S BUSINESS

As presented on page 11 of the financial statements, the loss of the Bank after taxation amounted to €7.060.098 (2016: profit of €4.403.912).

The main financial highlights for the year are set out below. The decrease in the Bank's profitability (rendered loss-making) during the year-ended 31 December 2017 was primarily attributable to decreased interest income due to the transfer of the Bank's entire portfolio of Greek Syndicated loans amounting of €118m to another subsidiary of the parent company (Note 34 (iii)) and the increase in provisions (Note 4).

	2017	2016
	€'000	**€'000**
Net Interest Income	22.265	26.270
Fee and Commission Income	4.969	5.443
Other Income and Foreign Exchange Gains	1.137	2.011
Staff Costs	(14.058)	(13.423)
Other Operating Expenses	(6.714)	(6.044)
Provision for Impairment of Loans and Advances	(15.217)	(8.798)
(Loss)/Profit for the Year, after Tax	(7.060)	4.404
Gross Loans	747.163	940.312
Customer deposits	572.690	571.083
Total Assets	790.352	923.015
Total Equity	182.036	188.087

	2017	2016
Net Interest Margin	2,8%	3,2%
Cost to Income ratio	73,2%	57,7%
Return on average equity	-3,7%	2,4%
Loans to Deposits (net)	86,3%	115,9%
NPEs to Gross Loans	68,0%	62,6%
Total capital ratio	26,7%	27,2%
Core Equity Tier 1 ratio	26,7%	27,2%

BRANCH NETWORK

The Bank operates in Cyprus through 13 Branches (9 Retail, 2 Business Centres, 2 IBUs. The Bank has also established a Representative Office in Moscow, Russia.

GOING CONCERN

Management has made an assessment of the Bank's ability to continue as a going concern.

Despite uncertain economic environment in Cyprus as described in Note 35 of the financial statements, the Board of Directors of the Bank has assumed that the Bank has the ability to continue its operations as a going concern on the basis of the Bank's capital adequacy position as disclosed in Note 37 of the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES, RISK MANAGEMENT, AND USE OF FINANCIAL INSTRUMENTS BY THE BANK

The Bank is exposed to various risks, the most important of which are Credit Risk, Liquidity Risk, and Market Risk (including interest rate risk and foreign exchange risk). Detailed information relating to the Bank's risk exposures and risk management are set out in Note 36 of the financial statements.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from counterparty credit risk. The Bank's exposure and the credit ratings and credit worthiness of counterparties are regularly monitored and the counterparty credit exposure is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Management Committee at least on an annual basis.

The loan portfolio is assessed on the basis of customer creditworthiness, sector of the economy in which the customer operates and the country of operation and is regularly audited by the Internal Audit department. The Bank's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in the summary of significant accounting policies.

Liquidity risk
Liquidity risk is the risk that the Bank is unable to meet current and future payments obligations as and when they fall due. This risk includes the possibility that the Bank may have to raise funding at a higher cost or sell assets at a discount.

Bank assets are mainly funded by deposits. The maturity of the deposits is actively monitored in order to avoid concentration of funding maturities at any point in time. The responsibility for the management of liquidity rests with the Bank's treasury department.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity requirements, in order to also ensure compliance with the applicable regulatory limits.

Market risk
Market risk is the risk of loss from adverse changes in market prices. The Bank is exposed primarily to financial risks emanating from changes in foreign currency exchange rates and interest rates. The ways that these risks are dealt with are analysed below:

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the interest rate repricing of assets and liabilities. The Bank monitors on a continuous basis the interest rate movements and the repricing or maturity structure of its assets and liabilities.

MANAGEMENT REPORT (Cont'd)
YEAR ENDED 31 DECEMBER 2017

PRINCIPAL RISKS AND UNCERTAINTIES, RISK MANAGEMENT, AND USE OF FINANCIAL INSTRUMENTS BY THE BANK (Cont'd)

Market risk (cont'd)

Currency risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. It arises from an open position in a foreign currency, creating an exposure to a change in the relevant exchange rate. This may arise from the holding of financial assets in one currency funded by liabilities in another currency.

In order to manage currency risk, the Bank has approved open position limits for each currency. Adherence to the limits is monitored on a daily basis by the treasury department.

EXPECTED FUTURE DEVELOPMENTS OF THE BANK / STRATEGIG TARGETS

The Board of Directors does not expect any significant changes in the activities of the Bank for the foreseeable future.

As the Board of Directors anticipates growth of the economy in the forthcoming years, it considers that new opportunities will arise in new business areas, which result in the expansion of the Bank's Balance Sheet and consequently, increased the Bank's market share and profitability etc.

The strategic objectives of the Bank for the following years are:

- Effective management of the performing portfolio in order to restrain the creation of new non-performing loans
- Effectively manage the non-performing and reduce the Bank's NPL ratio.
- Maintain healthy – low cost liquidity, and maintaining adequate regulatory liquidity ratios in accordance with the Central Bank of Cyprus liquidity requirements.
- Generate new interest and non-interest income, increasing profitability and profitability ratios.
- Strengthen capital adequacy position.
- Further strengthening of banking services towards Real Estate - Project Financing, as well as Retail and mainly to SME customers.

SHARE CAPITAL

There were no changes in the share capital of the Bank.

RESULTS

The Bank's results for the year are set out on pages 11 and 12. The loss for the year is transferred to retained earnings.

DIVIDENDS

The Annual Ordinary General Meeting held on 30 May 2017 took no decision on dividend distribution. As a result, no dividends were paid during 2017.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in Note 38 of the Financial Statements.

MANAGEMENT REPORT (Cont'd)
YEAR ENDED 31 DECEMBER 2017

BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2017 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2017 and up to the date of this report except from Mr Christos Christodoulou who was appointed as Managing Director (and CEO) on 29 November 2017 and Mr Christodoulos Seferis who was appointed as Independent non-executive member on 28 July 2017. Mr Nicolaos Th. Beis and Mrs Fotini Ioannou who held office on 1 January 2017, resigned on 28 July 2017.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors, other than as described above.

INDEPENDENT AUDITORS

The Independent auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors

Louka Katseli
Chairwoman

Lucia Pagdati
Secretary

Nicosia, 30 May 2018

Independent Auditor's Report

To the Members of National Bank of Greece (Cyprus) Limited

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of parent company National Bank of Greece (Cyprus) Limited (the "Bank") give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the parent company financial statements which are presented in pages 11 to 81 and comprise:

- the Balance Sheet as at 31 December 2017;
- the Income statement for the year then ended;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Statement of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Bank throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment provision on loans and advances to customers	
We focused on this area because the management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the impairment provision for loans and advances to customers. As loans and advances to customers comprise a large portion of the Bank's assets, and due to the significance of judgement used in estimating provisions, this is considered to be a key audit matter. Note 3 "Summary of Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments", Note 19 "Provision for Impairment of Loans and Advances" and Note 36 "Risk Management" to the financial statements provide detailed information on the estimation of provisions for impairment of loans and advances to customers as at 31 December 2017.	We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias: • The completeness and timing of loss events; • The measurement of individually assessed provisions, which is dependent on the valuation of collateral and the timing of cash flows and realisations; • The measurement of collective provisions, which is dependent upon key assumptions relating to the probability of default and loss given default. In obtaining sufficient audit evidence we: • Reviewed the design and operating effectiveness of controls pertaining to the credit approval process and independent collateral valuation; • Performed loan file reviews and other procedures to assess the completeness of the impairment "watch" list; • Traced impairment calculation inputs to appropriate source documents; • Reperformed impairment calculations on a sample basis; • Evaluated and tested the key assumptions and judgements adopted by management; • Assessed the disclosures made against the relevant accounting standards. The results of the above procedures were satisfactory.

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Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Bank on 5 October 2017 by the Board of Directors of the Bank for the audit of the financial statements for the year ended 31 December 2017. Our appointment is renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 1 year.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 29 May 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Bank and which have not been disclosed in the financial statements or the Management Report.

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Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

Other Matters

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The financial statements of the Bank for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified audit opinion for those financial statements on 30 May 2017.

The engagement partner on the audit resulting in this independent auditor's report is George C. Kazamias.

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

PwC Central, 43 Demostheni Severi Avenue
CY-1080 Nicosia Cyprus

30 May 2018

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 €	2016 €
Interest income	5	**25.861.525**	34.338.757
Interest expense	6	**(3.596.126)**	(8.068.534)
Net interest income		**22.265.399**	26.270.223
Fee and commission income	7	**4.968.722**	5.443.441
Net foreign exchange gains	8	**192.216**	667.951
Other income	9	**945.106**	1.343.127
Other losses	10	**(263.500)**	-
		28.107.943	33.724.742
Staff costs	11	**(14.058.043)**	(13.422.783)
Depreciation of property, plant and equipment	22	**(295.329)**	(325.653)
Amortisation of intangible assets	24	**(477.360)**	(443.834)
Other operating expenses	12	**(5.941.155)**	(5.274.948)
		(20.771.887)	(19.467.218)
Profit before impairment of loans and advances to customers		**7.336.056**	14.257.524
Provision for impairment of loans and advances to customers	19	**(15.217.564)**	(8.797.975)
(Loss)/profit before tax		**(7.881.508)**	5.459.549
Tax	13	**821.410**	(1.055.637)
(LOSS)/PROFIT FOR THE YEAR		**(7.060.098)**	4.403.912

The notes on pages 16 to 81 form an integral part of the financial statements.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 €	2016 €
(LOSS)/PROFIT FOR THE YEAR		**(7.060.098)**	4.403.912
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on revaluation of properties	30	**415.299**	-
Tax relating to items that will not be reclassified subsequently to profit or loss		-	342.516
Items that will not be reclassified to profit or loss		**415.299**	342.516
Items that may be subsequently reclassified to profit or loss			
Gain on revaluation of available-for-sale investments	30	**593.855**	263.274
Items that may be subsequently reclassified to profit or loss		**593.855**	263.274
Other comprehensive income for the year, net of tax		**1.009.154**	605.790
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(6.050.944)**	5.009.702

The notes on pages 16 to 81 form an integral part of the financial statements.

BALANCE SHEET AT 31 DECEMBER 2017

	Note	2017 €	2016 €
ASSETS			
Cash and balances with Central Bank of Cyprus	14	**62.844.194**	80.092.246
Deposits with other banks	15	**24.211.929**	43.087.230
Loans and advances to customers	17	**494.259.271**	662.176.710
Deposits with related banks	18(a)	**55.709.025**	16.596.106
Available for sale financial assets	20	**4.889.196**	4.295.341
Loans and receivables	21	**123.084.236**	95.080.348
Investment in subsidiary	16	**1.709**	1.709
Property, plant and equipment	22	**10.643.509**	10.419.533
Investment property	23	**4.206.500**	4.470.000
Intangible assets	24	**4.980.986**	5.044.638
Other assets	25	**3.191.981**	750.689
Current income tax asset		**1.453.904**	1.000.418
Deferred income tax assets	13(b)	**875.949**	-
Total assets		**790.352.389**	923.014.968
LIABILITIES			
Deposits from other banks	26	**9.737.010**	9.683.707
Deposits and other customer accounts	27	**572.689.610**	571.084.789
Deposits from related banks	18(b)	**13.406.712**	139.445.311
Other liabilities	28	**10.748.179**	12.982.907
Deferred income tax liabilities	13(b)	**1.735.014**	1.731.446
Total liabilities		**608.316.525**	734.928.160
EQUITY			
Share capital	29	**51.300.000**	51.300.000
Revaluation reserves	30	**12.027.475**	11.018.321
Retained earnings		**118.708.389**	125.768.487
Total equity		**182.035.864**	188.086.808
Total liabilities and equity		**790.352.389**	923.014.968

The financial statements have been approved by the Board of Directors on 30 May 2018.

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Louka Katseli
Chairwoman

....
Christos Christodoulou
Chief Executive Officer

....
Mark Klerides
Independent, Non-Executive Member

....
Yiannos Michael
Chief Financial Officer

The notes on pages 16 to 81 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital €	Property revaluation reserve €	Revaluation reserve of available-for-sale investments €	Retained earnings (1) €	Total €
Balance at 1 January 2016	51.300.000	7.424.451	2.988.080	121.364.575	183.077.106
Comprehensive income:					
Profit for the year	-	-	-	4.403.912	4.403.912
Other comprehensive income for the year	-	342.516	263.274	-	605.790
Total comprehensive income for the year	-	342.516	263.274	4.403.912	5.009.702
Balance at 31 December 2016/1 January 2017	**51.300.000**	**7.766.967**	**3.251.354**	**125.768.487**	**188.086.808**
Comprehensive loss:					
Loss for the year	-	-	-	**(7.060.098)**	**(7.060.098)**
Other comprehensive income for the year	-	**415.299**	**593.855**	-	**1.009.154**
Total comprehensive income/(loss) for the year	-	**415.299**	**593.855**	**(7.060.098)**	**(6.050.944)**
Balance at 31 December 2017	**51.300.000**	**8.182.266**	**3.845.209**	**118.708.389**	**182.035.864**

(1) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, by the end of the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence will be payable on such deemed dividend to the extent that the shareholders for deemed dividend distribution purposes at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The special contribution for defence rate increased from 15% to 17% in respect of profits of year of assessment 2009 and to 20% in respect of profits of years of assessment 2010 and 2011 and was reduced back to 17% in respect of profits of years of assessment 2012 onwards. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year by the end of the period of two years from the end of the year of assessment to which the profits refer. This special contribution for defence is paid by the Company for the account of the shareholders.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 €	2016 €
Net cash generated from operating activities	32	**29.853.918**	15.432.133
Cash flows from investing activities			
Purchase of intangible assets	24	**(413.708)**	(329.542)
Purchase of property, plant and equipment	22	**(104.006)**	(235.432)
Purchase of Cyprus government bonds and treasury bills	21	**(174.579.775)**	(145.241.472)
Proceeds from disposal and maturity of Cyprus government bonds and treasury bills	21	**146.575.887**	134.661.562
Proceeds from dividend income		**189.144**	490.504
Interest received on debt securities	21	**1.354.760**	1.748.255
Net cash used in investing activities		**(26.977.698)**	(8.906.125)
Net increase in cash and cash equivalents		**2.876.220**	6.526.008
Cash and cash equivalents at beginning of the year		**133.878.548**	127.352.540
Cash and cash equivalents at end of the year	33	**136.754.768**	133.878.548

Non-cash transactions

Refer to Note 34 (iii) for the non-cash transaction entered into during the year. There was no cash outflow or inflow with respect to this transaction.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. GENERAL INFORMATION

Country of incorporation
National Bank of Greece (Cyprus) Limited (the "Bank") is incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its parent and ultimate holding company is National Bank of Greece S.A., a Bank incorporated in Greece.

Principal activity
The principal activities of the Bank are the provision of a wide range of banking and financial services.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

In the current year, the Bank has adopted all the changes to International Financial Reporting Standards (IFRS) as adopted by the EU that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2017. The adoption of these Standards did not have a material effect on the accounting policies of the Bank.

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 9 Financial Instruments

IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets depends on how they are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes) and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI) are generally measured at amortised cost in subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option. All other debt instruments and equity investments are measured at their fair value in subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regards to the measurement of financial liabilities designated at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (Cont'd)

IFRS 9 Financial Instruments (cont'd)

Impairment
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to financial assets measured at amortised cost and FVTOCI (i.e. loans and advances to customers, debt securities, due from banks and other financial assets), lease receivables, and certain loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts, as these were covered by IAS 37.

At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, and hence are considered to be in default or otherwise credit impaired, are in 'stage 3'. For purchased or originated credit-impaired (POCI) financial assets, the reporting entity recognizes changes in lifetime expected losses since initial recognition as a loss allowance with any changes recognized in profit or loss. Under the IFRS 9 requirements, any favourable changes for such assets are an impairment gain even if the resulting expected cash flows of a financial asset exceed the estimated cash flows on initial recognition.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is more forward- looking than under IAS 39, and the resulting impairment charge may be more volatile.

Application of IFRS 9 by the Bank

All the requirements of IFRS 9 *Financial Instruments* are adopted from 1 January 2018.

The Bank shall apply IFRS 9 retrospectively, but has elected not to restate prior periods, in accordance with the transitional provisions of IFRS 9. Therefore, the comparative information for 2017 that will be included in the annual financial statements of the Bank for 2018, will be reported under IAS 39 and shall not be comparable to the information presented for 2018. Any differences arising from the adoption of IFRS 9 shall be recognised directly in equity as of 1 January 2018.

Classification and measurement

The Bank uses the following measurement categories for financial assets:

- Debt instruments at amortised cost.
- Debt instruments at FVTOCI with cumulative gains and losses reclassified to profit and loss on derecognition.
- Equity instruments designated as measured at FVTOCI with gains and losses remaining in other comprehensive income without recycling to profit or loss on derecognition.
- Debt instruments, derivatives, equity instruments and mutual funds at FVTPL.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (Cont'd)

IFRS 9 Financial Instruments (cont'd)

Classification and measurement (cont'd)

The Bank assesses the contractual cash flow characteristics of its debt instruments at initial recognition in order to determine whether they are SPPI. This is referred to as the "SPPI test". Interest amount within a basic lending arrangement, is typically the consideration for the time value of money and the credit risk assumed. Interest may also include consideration for other basic lending risks such as liquidity and costs, as well as a profit margin. IFRS 9 precludes the separation of any embedded derivatives from a hybrid contract when the host debt contract is a financial asset within its scope. Instead, the SPPI test is applied on the entire hybrid financial asset.

All loans and advances to customers are classified within the hold to collect business model, however, a limited number of loans and advances to customers is mandatorily classified at FVTPL because their contractual cash flows are not SPPI. The remaining population is accounted for at amortised cost.

Debt instruments are classified on the basis of a) the business model for managing the financial assets and b) the contractual cash flow characteristics of the financial asset.

The business models reflect how the Bank manages its debt instruments in order to generate cash flows. This assessment is performed on the basis of scenarios that the Bank reasonably expects to occur and is based on all relevant and objective information that is available at the time of the business model assessment.

The Bank has identified the following business models for debt instruments:

- Hold to collect contractual cash flows.
- Hold to collect contractual cash flows and sell. The objective of this business model is meeting everyday liquidity needs and such objective is achieved by both collecting contractual cash flows and selling debt instruments. Assets within this business model are not sold with the intention of short-term profit taking.
- Held for trading. Under this business model, the Bank actively manages the instrument in order to realise fair value gains arising from changes in credit spreads and yield curves.
- Held and managed on a fair value basis. Refers to assets that are managed by the Bank on a fair value basis without the intent to sell them in the near future.

Impairment

Default definition

The Bank has aligned the definition of default for financial reporting purposes, with the Non Performing Exposures (NPE) definition, as per EBA Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures, as adopted by the Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council ("EBA ITS"). The definition of default under IFRS 9 is consistent with the one used for internal credit risk management purposes, i.e. all exposures classified as NPEs are considered as credit impaired.

A debt security is considered as credit impaired under an objective approach, when at least one payment of capital or interest is overdue by the issuer, based on the contractual terms of the instrument, irrespective of the days past due. In addition, a debt security is assessed as credit impaired if there is at least one external credit rating on the security or the issuer corresponding to Default or Selective Default.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

IFRS 9 Financial Instruments (cont'd)

Significant increase in credit risk
A financial asset that is not considered as credit impaired, is classified as stage 2 if it has suffered a significant increase in credit risk (SICR), otherwise it is classified as stage 1.

At each reporting date, the Bank performs the SICR assessment, by comparing the risk of a default occurring over the remaining expected lifetime of the exposure with the expected risk of a default as estimated at origination.

The Bank's process to assess SICR is multi-factor and has three main components:

- a quantitative element, reflecting a quantitative comparison of PD or credit rating at the reporting date versus the respective metric at initial recognition;
- a qualitative element, based mainly on internal watchlist classification, where available, and forborne classification as per EBA ITS; and
- "backstop" indicator, by applying on all lending exposures the IFRS 9 presumption that a SICR has occurred when the financial asset is more than 30 days past due.

ECL measurement
The Bank recognizes an ECL allowance at initial recognition on financial assets classified and measured at amortised cost and FVTOCI, with the exception of POCI loans and written loan commitments that are not measured at FVTPL. For all such exposures, which are not individually assessed, an ECL allowance is recognized on a collective basis.

The ECL calculations are based on the following factors:

- **Exposure at Default ("EAD"):** This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- **Credit Conversion Factor ("CCF"):** The CCF converts the amount of a credit line and other off-balance sheet amounts to an EAD amount.
- **Probability of Default ("PD"):** Represents the likelihood of a borrower/issuer defaulting on its financial obligation, assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default either over the next 12 months for stage 1 financial assets, or over the remaining lifetime (lifetime PD) of the obligation, for stage 2 and 3 financial assets.
- **Loss given default ("LGD"):** Represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.
- **Discount Rate:** The implied discount factor based on the original effective interest rate of the financial asset or an approximation thereof.

The ECL is determined by projecting the PD, LGD and EAD for each future quarter and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival, if appropriate. This effectively calculates an ECL for each future quarter, which is then discounted back to the reporting date and summed.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

IFRS 9 Financial Instruments (cont'd)

Forward-looking economic inputs
Forward Looking Information (FLI) is incorporated in the ECL measurement of collectively assessed loans and debt securities through the PD and LGD models. The expected recoveries (cash flow recoveries or liquidation of collateral) used in the ECL calculation of wholesale lending exposures individually assessed, take into account FLI based on the Bank's forecasts of the relevant macroeconomic factors.

The Bank will apply three scenarios (i.e. baseline, optimistic, pessimistic), with the aim of achieving the objective of measuring ECL in a way that reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. The optimistic and pessimistic scenarios do not have to represent best and worst- case scenarios, respectively. For each scenario, the associated ECL is multiplied by the probability weight allocated to that scenario. The macroeconomic scenarios used for measuring ECL are the same with the ones used for evaluating SICR. The macroeconomic variables affecting the level of ECL (either through collective or individual assessment) are private consumption, consumer price index, GDP, stock market index, house price index, unemployment rate, real estate prices (commercial, retail and office spaces composite) and freight prices.

Estimated Impact on shareholders' equity as of 1 January 2018
The adoption of IFRS 9 on 1 January 2018, is expected to have a negative impact on the Bank's shareholders' equity by approximately €48,7 million before deferred tax and €42,6 million after deferred tax due to changes in the impairment requirements.

The expected estimates are based on the accounting policies, assumptions and judgments of the Bank, as determined to date, which will be finalized during the preparation of the financial statements for the year ending 31 December 2018. Consequently, the aforementioned estimates remain subject to change in 2018.

The table below shows the analysis for the impairment loss allowance for loans and advances under IFRS 9:

Mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowance	(35.769)	(37.348)	(20.974.069)	(21.047.186)
Consumer loans and Credit Cards				
ECL allowance	(106.521)	(114.032)	(21.422.558)	(21.643.111)
Corporate lending				
ECL allowance	(1.790.359)	(547.484)	(256.111.443)	(258.449.286)
Total				
ECL allowance	(1.932.649)	(698.864)	(298.508.070)	(301.139.583)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Bank is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019) .IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Bank is currently assessing the impact of the interpretation on its financial statements and as of the date of issue of these financial statements the impact of the interpretation is not known.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and IFRS 14 "Regulatory deferral accounts".

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These separate financial statements contain information about National Bank of Greece (Cyprus) Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IFRS 10 "Consolidated Financial Statements" and the Cyprus Companies Law, Cap.113 from the requirement to prepare consolidated financial statements as the Company and its subsidiary are included in the consolidated financial statements of its parent, National Bank of Greece S.A., which prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU that are available for public use. These consolidated financial statements are available at the National Bank of Greece S.A.'s website (www.nbg.gr).

The financial statements have been prepared on a going concern basis.

The Bank's presentation currency is the Euro (€), which is also the Bank's functional currency.

The financial statements are prepared on a historical cost basis, except for land and buildings, investment properties, available-for-sale investments and derivative financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of preparation (cont'd)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Foreign currency translation

Functional and presentation currency
Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro (€), which is the Bank's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historic cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss and other changes in carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognised in profit or loss, as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale financial assets, are included in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue

Revenue is recognised when it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in profit or loss using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate of the financial instruments. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts.

When a financial asset measured at amortised cost is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Fee and commission income and expense

Fee and commission income and expense are generally recognised in the year when the service have been provided to the clients or to the Bank respectively. Fee and commission income and expense relate to loans and advances, credit cards, letter of guarantee, credits and transfer of money and other banking services.

Dividend income

Dividend income is recognised when the Bank's right to receive payment is established.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Accounting for leases as lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the period of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL) 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on the trade date which is the date on which the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL at inception.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not financial guarantee contract nor is designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Financial assets at FVTPL (cont'd)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Held-to-maturity investments are those financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity that do not meet the definition of loans and receivables. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. During the year, the Bank did not hold any investments in this category.

AFS financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term or not classified in any of the other categories. They are included in non-current assets, unless the investment matures or management intends to dispose of the investment within twelve months of the balance sheet date.

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. The Bank also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value. Fair value of listed shares is based on market prices whereas, the fair value of unlisted shares is estimated using appropriate models and valuation methods and/or on the basis of the investee's financial results, condition and prospects. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of dividend income, impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

AFS financial assets (cont'd)

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. Loans and receivables including loans and advances to banks or customers, trade and other receivables and investments in Cyprus government bonds are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of impairment loss include:

- significant financial difficulty of the issuer or counterparty; or
- a breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of the borrower in the portfolio;and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

Available for sale financial assets

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative gains or losses - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial assets previously recognised in income statement - is removed from equity and are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of a provision account.

For loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

Provision for impairment of loans are determined using the "incurred loss" model as required by IFRS, which require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those events be.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

Assets carried at amortised cost (cont'd)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate. The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, geographic location, past-due days and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written-off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "provision for impairment losses on loans and advances", whilst impairment charges relating to investment securities are classified in "Other gains/Other losses".

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. The amount or reversal is recognised in profit or loss.

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Derecognition of financial assets (cont'd)

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'-measured at amortised cost.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL upon initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not financial guarantee contract nor is designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments issued by the Bank (cont'd)

Financial liabilities at FVTPL (cont'd)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in income statement. The net gain or loss recognised in income statement incorporates any interest paid on the financial liability.

During the year the Bank did not hold any instrument in this category.

Other financial liabilities

Other financial liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issues to make specified payments to reimburse the holder for a loss in incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt instrument.

The Bank issues financial guarantees to its customers, consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised in the financial statements at fair value, on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

Subsequently, the Bank's liability under each guarantee is measured at the higher of:

(a) The amount initially recognised less, where appropriate, cumulative amortization recognised in accordance with the revenue recognition policies; and
(b) The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Sales and repurchase agreements

Securities sold under agreements to repurchase at a specific future date ("repos") continue to be recorded in the Bank's balance sheet while the counterparty liability is included in amounts due to other banks or due to customers, as appropriate. The difference between the sale price and repurchase price is recognised as interest expense during the repurchase agreement period using the effective interest rate method.

Property, plant and equipment

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Revaluations are performed with sufficient regularity such that the carrying amounts do no differ materially from those that would be determined using fair values at the balance sheet date. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited in other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to profit or loss.

The property revaluation reserve includes revaluation of property initially used by the Bank for its operations and subsequently transferred to investment properties.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Furniture and equipment and motor vehicles are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The annual depreciation rates used are as follows:

	%
Buildings and installations	3 to 20
Furniture and equipment	10 to 20
Motor vehicles	20

No depreciation is charged on land.

An asset's carrying amount is written down immediately to tis recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (cont'd)

Expenditure for repairs and maintenance of property, plant and equipment is charged to the income statement of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value as at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. Valuations are carried out by independent qualified valuers applying valuation models.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Bank and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortization and any accumulated impairment losses.

Expenditure which enhances or extends the performance of computer software programmer beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programmer are changed to the income statement of the year in which they were incurred.

Computer software costs are amortised using the straight line method over their estimated useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use.

Intangible asset are reviewed for impairment when events relating to charges to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

Useful economic lives and amortisation method are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of non financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

The Bank and the employees contribute to a defined contributions scheme.

Under the defined contributions scheme the Bank and members of staff pay fixed contributions into separate provident fund. The Bank's contributions are recognised in the period they relate to and included in staff costs in the income statement. The Bank has no further payment obligations once the contributions have been paid.

Income taxation

Current income tax
Income tax payable/(receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense/(income) for the period except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

The Bank does not offset current income tax liabilities and current income tax assets.

Deferred income tax
Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Temporary differences arise from depreciation of property, plant and equipment and amortisation of computer software.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of carry-forward of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to items recognised in other comprehensive income, is also recognised in other comprehensive income.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Income taxation (cont'd)

Deferred income tax (cont'd)
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Bank where there is an intention to settle the balances on a net basis.

Special levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on 31st December, 31st March, 30th June and 30th September on qualifying deposits held by each credit institution. The special levy is included in other operating expenses, Note 12.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts. These instruments are initially recognised at cost and are subsequently remeasured at their fair value. Derivative financial instruments are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative assets and derivative liabilities are included in net profit or loss for the period.

Offsetting financial instruments

Financial assets and financial liabilities may be offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course.

Provisions

Provisions are recognized when the Bank has: (a) a present obligation (legal or constructive) arising from past events, (b) it is probable that the obligation will result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Bank becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Bank are not provided in advance. Provisions are not recognised for future operating losses.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents for the purposes of the cash flow statement, consist of balances with less than three months maturity, including cash, unrestricted balances with central bank and amounts due from other banks.

Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Other liabilities

Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Deposits from banks and deposits from customers

Deposits from banks and deposits from customers are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the income statement using the effective interest rate method. Deposits from banks and deposits from customers are derecognised when they are extinguished, that is, when the obligation in discharged.

Investments in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

Related party transactions

Related parties include the parent and ultimate controlling party, fellow subsidiaries, other group companies under common control, directors and key management personnel, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature within the same category are disclosed on an aggregated basis.

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where applicable, comparative figures have been adjusted to conform with changes in presentation in the current year.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements the management of the Bank is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates and may cause a material adjustment to the carrying amounts of assets and liabilities.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are presented below:

Provisions for impairment of loans and advances

The Bank reviews its loan portfolios to assess impairment regularly. In determining whether a provision for impairment should be recorded in the income statement the Bank makes judgement as to whether there is any observable data indicating there is measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers at a group level, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Accordingly, as at the reporting date, the Bank has appropriately recalibrated the assumptions pertaining to the timing of future cash flows to take into consideration all relevant market information and past experience available as at that date, with an impact of €8,4 million of additional impairment provisions.

For loans assessed on an individual basis, management uses its best estimate to determine the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial position and the net realisable value of any underlying collaterals.

Fair value of financial instruments

The best evidence of fair value is a quoted price in an actively traded market. The fair value of shares and other financial instruments that are not quoted in an active market is determined using valuation models.

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.

More information on changes in the fair value of bonds, shares and other financial instruments is disclosed in Note 36.

Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made.

If the final result of the tax statement of the Bank varied by 30% from management's expectations due to the uncertainties in the tax treatment of these issues, there would be no significant change in the current tax liabilities because the Bank maintains a significant amount of tax losses which can be utilized against it.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

Fair value of properties held for own use and investment properties

The properties held by the Bank for own use as well as the investment properties, are measured at fair value less accumulated depreciation and impairment losses. Fair value is determined from valuations undertaken by professionally qualified valuers based on market signals for their existing use and is carried out at regular intervals so that the carrying amount does not differ materially from fair value.

In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement and do not rely solely on historical transactional comparable, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

If the estimated value per square meter used in the calculations for the properties held for own use was reduced by 15% the value of the properties would be €1,5m (2016: €1,4m) lower, with an equivalent impact in the income statement.

If the estimated value per square meter used in the calculations for investment properties was reduced by 15% the value of the building would have been €0,6m (2016: €0,7m) lower, with an equivalent impact in the income statement.

More information on inputs used is disclosed in Notes 22 and 23.

5. INTEREST INCOME

	2017 €	2016 €
Loans and advances to customers	**24.249.993**	32.550.189
Deposits with banks and central bank	**330.659**	40.313
Investments held-to-maturity	**-**	80.562
Investments classified as loans and receivables	**1.280.873**	1.667.693
	25.861.525	34.338.757

Interest income from loans and advances to customers includes interest on the net carrying amount of impaired loans and advances to customers amounting to €9.158.772 (2016: €12.654.312).

6. INTEREST EXPENSE

	2017 €	2016 €
Deposits and other customer accounts	**2.366.258**	4.036.381
Deposits from banks	**1.229.868**	4.032.153
	3.596.126	8.068.534

7. FEE AND COMMISSION INCOME

	2017 €	2016 €
Fees	**1.216.315**	1.409.770
Commissions	**3.752.407**	4.033.671
	4.968.722	5.443.441

8. NET FOREIGN EXCHANGE GAINS

Net foreign exchange gains comprises the translation of monetary assets in foreign currency at the end of the reporting period, realised exchange gains or losses from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

9. OTHER INCOME

	2017 €	2016 €
Dividend income	**189.144**	490.504
Other income	**755.962**	852.623
	945.106	1.343.127

10. OTHER LOSSES

	2017 €	2016 €
Loss on revaluation of investment property	**263.500**	-

11. STAFF COSTS

	2017 €	2016 €
Salaries	**10.980.416**	10.812.608
Employer's contributions	**1.466.287**	1.036.566
Provident fund contributions	**1.088.216**	1.229.800
Other staff expenses	**523.124**	343.809
	14.058.043	13.422.783

The number of staff employed by the Bank as of 31 December 2017 was 261 (2016: 258). The average number of staff employed by the Bank for 2017 was 260 (2016: 261).

The bank operates a defined contribution plan.

Based on the agreement signed in June 2014, the Bank's contribution to the provident fund was 12%, which was revised to 9,75% from January 2017.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

12. OTHER OPERATING EXPENSES

	2017 €	2016 €
Occupancy costs	**566.440**	560.549
Rentals	**754.723**	770.899
Advertising and marketing	**319.033**	283.861
Repairs and maintenance	**883.118**	850.007
Administrative expenses	**1.413.227**	1.071.489
Other operating expenses	**1.137.105**	818.134
Special levy on deposits (1)	**867.509**	920.009
	5.941.155	5.274.948

(1) According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on 31st December, 31st March, 30th June and 30th September on qualifying deposits held by each credit institution.

The total fees charged by the Bank's statutory auditor for the statutory audit of the annual financial statements of the Bank for the year ended 31 December 2017 amounted to €58.000 exclusive of VAT (2016: €75.750 exclusive of VAT). The total fees charged by the Bank's statutory auditor for the year ended 31 December 2017 for other assurance services amounted to €7.000, exclusive of VAT (2016: €56.500, exclusive of VAT) and for tax advisory services amounted to €6.000, exclusive of VAT (2016: €4.000, exclusive of VAT).

13. INCOME TAX

(a) Tax recognised in profit or loss:

	2017 €	2016 €
Current tax:		
- Corporation tax	**(79.735)**	741.454
Withholding tax	**130.705**	303.890
Total current tax	**50.970**	1.045.344
Deferred tax (credit)/charge	**(872.380)**	10.293
Total income tax (credit)/charge	**(821.410)**	1.055.637

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

13. INCOME TAX (Cont'd)

(a) Tax recognised in profit or loss (continued)

The tax on the Bank's (loss)/profit before the tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2017 €	2016 €
(Loss)/profit before tax	**(7.881.508)**	5.459.549
Tax calculated at the applicable corporation tax rate of 12,5%	**(985.188)**	682.444
Tax effect of expenses not deductible for tax purposes	**256.844**	131.439
Tax effect of allowances and income not subject to tax	**(144.036)**	(62.136)
Withholding tax	**130.705**	303.890
Overprovision of prior year taxes	**(79.735)**	-
Income tax (credit)/expense	**(821.410)**	1.055.637

The Bank is subject to income tax on taxable profits, at the rate of 12,5%.

As from tax year 2012 brought forward losses of only five years may be utilised.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014. In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

13. INCOME TAX

(b) Deferred income tax assets and liabilities

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

	Difference between depreciation and wear and tear allowance €	Revaluation of land and buildings €	Total €
At 1 January 2016	395.217	1.296.286	1.691.503
Charged/(credited) to:			
Profit or loss	10.293	-	10.293
Other comprehensive income	-	29.650	29.650
At 31 December 2016/1 January 2017	405.510	1.325.936	1.731.446
Charged/(credited) to:			
Profit or loss	3.568	-	3.568
Other comprehensive income	-	-	-
At 31 December 2017	409.078	1.325.936	1.735.014

Deferred income tax assets

	Tax losses €	Total €
At 1 January 2016	-	-
(Charged)/credited to:		
Profit or loss	-	-
At 31 December 2016/1 January 2017	-	-
(Charged)/credited to:		
Profit or loss	875.949	875.949
At 31 December 2017	875.949	875.949

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

14. CASH AND BALANCES WITH THE CENTRAL BANK OF CYPRUS

	2017 €	2016 €
Cash in hand	**12.488.265**	13.341.932
Balances with the Central Bank of Cyprus:		
- due within three months	**50.355.929**	66.750.314
	62.844.194	80.092.246

Cash and balances with central banks are classified as current.

Balances with Central Bank include mandatory deposits for liquidity purposes of an amount of €5.843.530 (2016: €5.717.702).

Mandatory deposits with central banks represent the minimum level of average monthly deposits which the Bank is required to maintain. Mandatory balances with central banks can be withdrawn at any time provided the average monthly minimum deposits are maintained.

15. DEPOSITS WITH OTHER BANKS

	2017 €	2016 €
Interbank accounts	**24.211.929**	23.638.549
Money market placements	**-**	19.448.681
	24.211.929	43.087.230

The maturity of the above balances is presented below:

	2017 €	2016 €
Due within three months	**24.045.079**	42.897.398
Between three months and one year	**166.850**	189.832
	24.211.929	43.087.230

The fair value of the above balances approximates their carrying amount.

Placements with bank bear interest which is based on the interbank rate of the relevant term and currency.

None of these financial assets are either past due or impaired.

Deposits with other banks are classified as "loans and receivables".

16. INVESTMENT IN SUBSIDIARY

The subsidiary company and its principal activity are described below:

Name	Participation	Principal activities	2017 €	2016 €
National Securities Cyprus Limited	**100%**	Dormant company	**1.709**	1.709

National Securities Cyprus Limited is registered and operates in Cyprus.

17. LOANS AND ADVANCES TO CUSTOMERS

	2017 €	2016 €
Loans and advances to customers	**746.276.295**	933.291.513
Hire purchase and leasing debtors	**887.042**	7.020.570
Total: gross	**747.163.337**	940.312.083
Provisions for impairment of loans and advances (Note 19)	**(252.904.066)**	(278.135.373)
Total: net or impairment allowance	**494.259.271**	662.176.710

The distribution of advances based on their remaining contractual maturity at 31 December is presented below:

	2017 €	2016 €
Due within three months	**113.300.696**	125.048.320
Between three months and one year	**52.684.595**	62.455.810
Between one and five years	**88.968.144**	167.576.269
Over five years	**492.209.902**	585.231.684
	747.163.337	940.312.083

The distribution of advances of the Bank to industry sectors is presented below:

	2017 €	2016 €
Trade and services	**285.718.119**	343.031.603
Construction	**184.081.668**	226.696.505
Manufacturing	**59.285.580**	86.272.864
Tourism	**26.647.051**	37.964.607
Retail	**123.574.830**	163.321.109
Other	**67.829.089**	83.025.395
	747.163.337	940.312.083

Analysis by geographical area:

	2017 €	2016 €
Cyprus	**691.208.410**	760.473.970
Greece	**1.671.383**	127.523.070
Other countries	**54.283.544**	52.315.043
	747.163.337	940.312.083

The fair value of loans and other advances to customers approximates their carrying amount at the balance sheet date.

Loans and advances to customers are categorized as "loans and receivables".

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

18. BALANCES WITH RELATED BANKS

(a) Deposits with related banks

	2017 €	2016 €
National Bank of Greece S.A.	**55.709.025**	16.596.106
	55.709.025	16.596.106

The maturity of the above balances is presented below:

	2017 €	2016 €
Due within three months	**55.709.025**	16.596.106
	55.709.025	16.596.106

The fair value of the above balances approximates their carrying amount.

(b) Deposits from related banks

	2017 €	2016 €
National Bank of Greece S.A.	**13.406.712**	139.445.311
	13.406.712	139.445.311

The maturity of the above balances is presented below.

	2017 €	2016 €
Due within three months	**13.406.712**	139.445.311
	13.406.712	139.445.311

The fair value of the above balances approximates their carrying amount.

19. PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES

	€
Balance 1 January 2016	261.323.039
Provisions for the year	8.797.975
Write offs against provisions	(807.471)
Provision on accrued interest for interest income not recognised	8.821.830
Balance at 31 December 2016/1 January 2017	**278.135.373**
Provisions for the year	**15.217.564**
Write offs against provisions	**(46.875.970)**
Provision on accrued interest for interest income not recognised	**6.427.099**
Balance at 31 December 2017	**252.904.066**

19. PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

Amounts recognised in profit or loss:

	2017 €	2016 €
Provision for impairment	**15.217.564**	8.797.975

20. AVAILABLE FOR SALE FINANCIAL ASSETS

	2017 €	2016 €
Listed equity securities	**2.693.003**	2.099.147
Unlisted equity securities	**2.196.193**	2.196.194
	4.889.196	4.295.341

Available for sale financial assets are as follows:

	2017 €	2016 €
Unlisted equity securities:		
JCC Payment Systems Ltd	**972.560**	972.560
National Insurance (Cyprus) Limited	**1.223.634**	1.223.634
Listed equity securities:		
Master Card International Incorporation	**2.682.834**	2.087.016
Bank of Cyprus Public Company Ltd	**10.168**	12.131
	4.889.196	4.295.341

The movement of available-for-sale financial assets is as follows:

	2017 €	2016 €
Net book value at 1 January	**4.295.341**	4.032.067
Net gain from changes in fair value	**593.855**	263.274
Net book value at 31 December	**4.889.196**	4.295.341

Equity reserve: Revaluation of available-for-sale financial assets

Gains and losses arising from the changes in the fair value of available-for-sale investments are recognised in other comprehensive income and in the revaluation reserve for available-for-sale assets in equity. The movement of the reserve is as follows:

	2017 €	2016 €
Balance at 1 January	**3.251.354**	2.988.080
Net gain from changes in fair value	**593.855**	263.274
Balance at 31 December	**3.845.209**	3.251.354

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

21. LOANS AND RECEIVABLES

	2017 €	2016 €
Cyprus government bonds and treasury bills	**123.084.236**	95.080.348

	2017 €	2016 €
Listed on the Cyprus Stock Exchange	**123.084.236**	95.080.348

The maturity of the above investments is presented below:

	2017 €	2016 €
Within three months	**102.357.228**	39.609.852
Between one and five years	-	35.325.843
Over 5 years	**20.727.008**	20.144.653
	123.084.236	95.080.348

The fair value of loans and receivables approximates their carrying amount.

The movement of loans and receivables is as follows:

	2017 €	2016 €
Net book value at 1 January	**95.080.348**	84.500.438
Additions	**174.579.775**	145.241.472
Maturities and redemptions	**(146.502.000)**	(134.581.000)
Interest accrued	**1.280.873**	1.667.693
Interest received	**(1.354.760)**	(1.748.255)
Net book value at 31 December	**123.084.236**	95.080.348

None of these financial assets are either past due or impaired.

22. PROPERTY, PLANT AND EQUIPMENT

	Land, Buildings and installations	Motor Vehicles	Furniture and equipment	Total
	€	€	€	€
Cost or valuation				
1 January 2016	9.909.719	239.088	4.162.592	14.311.399
Additions	1.375	17.000	217.057	235.432
Write offs/disposals	-	(51.429)	(17.693)	(69.122)
31 December 2016/1 January 2017	9.911.094	204.659	4.361.956	14.477.709
Additions	31.409	-	72.597	104.006
Revaluation	156.310	-	-	156.310
31 December 2017	10.098.813	204.659	4.434.553	14.738.025
Accumulated depreciation				
1 January 2016	-	237.331	3.564.314	3.801.645
Charge for the year	157.693	1.713	166.247	325.653
Write off/disposals	-	(51.429)	(17.693)	(69.122)
31 December 2016/1 January 2017	157.693	187.615	3.712.868	4.058.176
Charge for the year	101.296	3.909	190.124	295.329
Revaluations	(258.989)	-	-	(258.989)
31 December 2017	-	191.524	3.902.992	4.094.516
Net book value				
31 December 2017	10.098.813	13.135	531.561	10.643.509
31 December 2016	9.753.401	17.044	649.088	10.419.533

Fair value measurement of the Bank's freehold land and buildings

The Bank's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Bank's land and buildings as at 31 December 2017 and 31 December 2016 were performed by independent valuers not related to the Bank. The valuers have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The fair value of the properties was determined using the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flow approach that reflects the annual return or potential return of the investor from the property held. As at 31 December 2017 and 2016, the fair value of the land and buildings has been determined at the average value based on the valuations carried out by the Bank's two independent property valuers.

During the years 2017 and 2016, the Bank adopted a valuation technique using unobservable inputs. Accordingly, the fair value was classified as Level 3.

There has been no change to the valuation technique during the year.

The valuation levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

22. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Details of the Bank's land and buildings and information about the fair value hierarchy as at 31 December are as follows:

	Quoted prices in active markets for identical assets (level 1) 2017 €	Significant other observable inputs (level 2) 2017 €	Significant unobservable inputs (level 3) 2017 €	Total 2017 €
Land	-	-	**6.535.000**	6.535.000
Buildings	-	-	**3.227.500**	3.227.500
	-	-	**9.762.500**	9.762.500

	Quoted prices in active markets for identical assets (level 1) 2016 €	Significant other observable inputs (level 2) 2016 €	Significant unobservable inputs (level 3) 2016 €	Total 2016 €
Land	-	-	**6.252.500**	6.252.500
Buildings	-	-	**3.260.000**	3.260.000
	-	-	**9.512.500**	9.512.500

Information about fair value measurements using significant unobservable inputs (Level 3) – 31 December 2017

Description	Fair value at 31 December 2017 € Land	Office building	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
Land and office building – Nicosia	6.032.500	3.052.500	Market comparable approach	Price per square meter	Approximately €350-€650 for basements, €4.500 for ground floor and mezzanine (new building) and €8.000 for ground floor and mezzanine (preserved building)	The higher the price per square meter, the higher the fair value

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

22. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Details of the Bank's land and buildings and information about the fair value hierarchy as at 31 December 2017 are as follows:

Description	Fair value at 31 December 2017 € Land	Fair value at 31 December 2017 € Office building	Valuation technique(s)	Rental value €	Discount rate	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
Land and office building - Larnaca	502.500	175.000	Market comparable approach	-	-	Price per square meter	€1.500 for mezzanine floor and €3.900 for ground floor	The higher the price per square meter, the higher the fair value
			Discounted cash flow approach	45.000	6,50%	Discount rate	-	The higher the discount rate, the lower the fair value

Information about fair value measurements using significant unobservable inputs (Level 3) – 31 December 2016

Description	Fair value at 31 December 2016 € Land	Fair value at 31 December 2016 € Office building	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
Land and office building – Nicosia	5.750.000	3.052.500	Market comparable approach	Price per square meter	Approximately €350-€650 for basements, €4.500 for ground floor and mezzanine (new building) and €8.000 for the ground floor and mezzanine (preserved building)	The higher the price per square meter, the higher the fair value

22. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Description	Fair value at 31 December 2016 €		Valuation technique	Rental value €	Discount rate	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
	Land	Office Building						
Land and office building - Larnaca	502.500	207.500	Market comparable approach	-	-	Price per square meter	€1.750 for mezzanine floor and €4.000 for ground floor	The higher the price per square meter, the higher the fair value
			Discounted cash flow approach	45.000	6,50%	Discount rate	-	The higher the discount rate, the lower the fair value

23. INVESTMENT PROPERTY

	2017 €	2016 €
Balance at 1 January	**4.470.000**	4.470.000
Fair value loss (Note 10)	**(263.500)**	-
Balance at 31 December	**4.206.500**	4.470.000

The Bank's investment property is measured at fair value. Changes in fair values are recognised in profit or loss.

The fair value measurement of the Bank's investment property as at 31 December 2017 and 31 December 2016 has been derived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Bank. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flow approach that reflects the annual return or potential return of the investor from the property held.

As at 31 December 2017 and 2016, the fair value of the land and buildings has been determined at the average value based on the valuations carried out by the Bank's two independent property valuers.

There has been on change to the valuation technique during the year.

Details of the Bank's investment property and information about the fair value hierarchy as at 31December are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

23. INVESTMENT PROPERTY (Cont'd)

	Level 3 2017 €	Fair value 2017 €
Land	**2.150.000**	2.150.000
Buildings	**2.056.500**	2.056.500
	4.206.500	4.206.500

	Level 3 2016 €	Fair value 2016 €
Land	**2.150.000**	2.150.000
Buildings	**2.320.000**	2.320.000
	4.470.000	4.470.000

Information about fair value measurement using significant unobservable inputs (Level 3) – 31 December 2017

Description	Fair value at 31 December 2017 €		Valuation technique	Rental value €	Discount rate %	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
	Land	Office Building						
	2.150.000	2.056.500						
Land and office building – Limassol			Market comparable approach	-	-	Price per square meter	Approximately €178 for basement, €3.300 for ground floor and €900-1.200 for mezzanine floor	The higher the price per square meter, the higher the fair value
			Discounted cash flows approach	14.000	5%	Discount rate	-	The higher the discount rate, the lower the fair value

23. INVESTMENT PROPERTY (Cont'd)

Information about fair value measurement using significant unobservable inputs (Level 3) – 31 December 2016

Description	Fair value at 31 December 2016 €		Valuation techniques(s)	Rental value €	Discount rate %	Unobservable Inputs	Range of Unobservable Inputs (probability weighted average)	Relationship of unobservable Inputs to fair values
Land and office building – Limassol	Land 2.150.000	Office Building 2.320.000	Market comparable approach	-	-	Price per square meter	Approximately €200 for basement, €3.500-€3.600 for ground floor and €1.100-€1.250 for mezzanine floor	The higher the price per square meter, the higher the fair value
			Discounted cash flows approach	16.000	5%	Discount rate	-	The higher the discount rate, the lower the fair value

24. INTANGIBLE ASSETS

	Computer software €
At 1 January 2016	
Cost	10.459.161
Accumulated amortisation	(5.300.232)
Net book amount	5.158.929
Year ended 31 December 2016	
Opening net book amount	5.158.929
Additions	329.543
Amortisation charge	(443.834)
Closing net book amount	5.044.638
At 31 December 2016	
Cost	10.788.704
Accumulated amortisation	(5.744.066)
Net book amount	5.044.638
Year ended 31 December 2017	
Opening net book amount	**5.044.638**
Additions	**413.708**
Amortisation charge	**(477.360)**
Closing net book amount	**4.980.986**

24. INTANGIBLE ASSETS (Cont'd)

At 31 December 2017	
Cost	**11.202.412**
Accumulated amortisation	**(6.221.426)**
	4.980.986

25. OTHER ASSETS

	2017 €	2016 €
Prepaid expenses	**219.251**	279.758
Debtors and other receivables	**2.896.787**	392.533
Other assets	**75.943**	78.398
	3.191.981	750.689

26. DEPOSITS FROM OTHER BANKS

	2017 €	2016 €
Interbank borrowing	**9.737.010**	9.683.707

The maturity of the above balances is presented below:

	2017 €	2016 €
Due within three months	**6.955.128**	5.929.959
Between three months and one year	**2.781.882**	-
Due within one and five years	-	3.753.748
	9.737.010	9.683.707

The fair value of the above balances approximates their carrying amount.

27. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	2017 €	2016 €
Time and notice accounts	**354.996.204**	385.625.444
Demand and current accounts	**145.249.773**	125.612.689
Savings accounts	**72.443.633**	59.846.656
	572.689.610	571.084.789

Analysis by geographical area

	2017 €	2016 €
Cyprus	**427.079.268**	414.057.226
Greece	**105.317.989**	106.874.517
Other countries	**40.292.353**	50.153.046
	572.689.610	571.084.789

27. DEPOSITS AND OTHER CUSTOMER ACCOUNTS (cont'ud)

The fair value of the above balances approximates their carrying amount.

The above mentioned balances maturity is presented below:

	2017 €	2016 €
Due within three months	**466.829.646**	447.336.711
Between three months and one year	**105.859.964**	123.748.078
	572.689.610	571.084.789

28. OTHER LIABILITIES

	2017 €	2016 €
Receipts on behalf of third parties	**622.010**	589.300
Provision for staff unpaid leave	**139.188**	77.400
Cheques – drafts payable	**3.105.652**	2.656.168
Fair value of derivatives	**7.581**	35.943
Other liabilities (1)	**6.873.748**	9.624.096
	10.748.179	12.982.907

(1) Other liabilities include provisions for pending litigations or complaints and/or claims amounting to €2.307.136 (2016: 1.765.206).

29. SHARE CAPITAL

	2017 Shares	2017 €	2016 Shares	2016 €
Authorised:				
Ordinary shares of Euro 1,71 each	30.000.000	51.300.000	30.000.000	51.300.000
Issued and fully paid				
Ordinary shares of Euro 1,71 each	30.000.000	51.300.000	30.000.000	51.300.000

30. REVALAUTION RESERVES

	Land and buildings €	Available-for-sale investments €	Total €
Balance at 1 January 2016	7.424.451	2.988.080	10.412.531
Gain from change in fair value	-	263.274	263.274
Deferred taxation on revaluation	342.516	-	342.516
Balance at 31 December 2016/1 January 2017	7.766.967	3.251.354	11.018.321
Gain from change in fair value	415.299	593.855	1.009.154
Balance at 31 December 2017	8.182.266	3.845.209	12.027.475

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

31. CONTINGENT LIABILITIES AND COMMITMENTS

The nominal value of the contingencies and commitments as at 31 December are presented below:

	2017 €	2016 €
Acceptances and Endorsements	**785.142**	10.334.730
Letters of Guarantee	**22.523.398**	25.799.161
Letters of Credit	**3.029.408**	7.723.968
Customers' credit limits that have been approved but have not been used	**101.193.470**	93.627.806
	127.531.418	137.485.665

Letters of credit and guarantees are offset by corresponding obligations of third parties.

Pending litigations and claims

As at 31 December 2017 there were pending litigations against the Bank in connection with its activities. Based on legal advice the Board of Directors believes that there is adequate defence against all claims and it is not possible that the Bank will suffer any significant damage over and above any amounts already provided as disclosed in Note 28. Provision amounts recognized primarily relate to outstanding industrial and/or trade union disputes in relation to which the Bank expects economic outflows that approximate the provision amounts recognized. The Bank is unable to reliably estimate the exact timing of such outflows, the majority of which depend on the timing of final court decisions whose determination is by nature uncertain.

32. NET CASH USED IN OPERATING ACTIVITIES

	Note	2017 €	2016 €
(Loss)/profit before taxation		**(7.881.508)**	5.459.549
Depreciation of property, plant and equipment	22	**295.329**	325.653
Amortisation of intangible assets	24	**477.360**	443.834
Provision for unused vacation		**1.190**	(272.660)
Provision for impairment of loans and advances	19	**15.217.564**	8.797.975
(Gain)/loss from derivative financial instruments		**(30.314)**	35.367
Loss on revaluation of investment property	10	**263.500**	-
Dividend income	9	**(189.144)**	(490.504)
Interest on debt securities	5	**(1.280.873)**	(1.748.255)
		6.873.104	12.550.959
Decrease in loans and other advances		**34.707.599**	33.033.225
Increase/(decrease) in deposits and other customer accounts		**1.604.821**	(43.694.034)
Increase/(decrease) in deposits with other banks		**22.983**	1.279.643
(Increase)/decrease in obligatory balances with Central Bank of Cyprus		**(136.328)**	2.621.943
Increase in deposits from other banks		**53.303**	6.890.136
(Increase)/decrease in deposits from related banks		**(8.046.323)**	(26.052)
Increase in other assets		**(2.439.340)**	(329.856)
(Decrease)/increase in other liabilities		**(2.281.446)**	4.151.513
Net cash generated from operations		**30.358.373**	16.477.477
Tax paid		**(504.455)**	(1.045.344)
Net cash generated from operating activities		**29.853.918**	15.432.133

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

33. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents

	2017	2016
	€	€
Cash in hand (Note 14)	**12.488.265**	13.341.932
Non-obligatory balances with Central Bank of Cyprus	**44.512.399**	61.043.112
Deposits with related banks – due within three months	**55.709.025**	16.596.106
Deposits with other banks – due within three months	**24.045.079**	42.897.398
	136.754.768	133.878.548

For the purpose of preparing the statement of cash flows, the maturities of cash equivalents relating to the balances with related and other banks and with the Central Bank of Cyprus, are based on their original contractual maturity.

34. RELATED PARTY TRANSACTIONS

The parent and ultimate holding company of the Bank is National Bank of Greece S.A., a company registered in Greece, who prepares consolidated financial statements available for public use. The consolidated financial statements of National Bank of Greece S.A. are available at the National Bank of Greece S.A, website (www.nbg.gr) and its registered office is located at Eolou 86, 10232 Athens, Greece.

Details of transactions between the Bank and other related parties are disclosed below.

Trading transactions

During the year, the Bank entered into the following trading transactions with related parties that are not members of the Group:

	Interest & other income		Interest & other expense	
	2017	2016	2017	2016
	€	€	€	€
National Bank of Greece S.A. – parent bank	**205.763**	152.177	**1.286.532**	4.392.462
Subsidiaries of National Bank of Greece S.A	**1.072.411**	1.331.170	**823.333**	813.419

Balances with related companies

The following balances were outstanding at the end of the reporting period:

	2017	2016
	€	€
Deposits and other customer accounts		
National Securities S.A.-related party under common control	**331.686**	335.557
NBG Management Services Limited-related party under common control	**16.623.317**	4.322.810
National Insurance (Cyprus) Limited-related party under common control	**3.713.083**	3.853.485
National General Insurance (Cyprus) Limited-related party under common control	**3.846.827**	4.172.344
National Securities (Cyprus) Limited-subsidiary	**1.912**	1.912
Quadratix Limited-related party under common control	**1.042.049**	-
	25.558.874	12.686.108

34. RELATED PARTY TRANSACTIONS (Cont'd)

Balances with related companies (Cont'd)

The following balances were outstanding at the end of the reporting period:

	2017	2016
	€	€
Loans and other advances to related parties under common control		
Astir Palace Vouliagmenis S.A.	-	77.909
NBG Leasing IFN S.A.	**26.302.557**	26.303.105
	26.302.557	26.381.014

Deposits with and from related banks are presented in note 18 to the financial statements.

Other transactions

(i) The parent company, National Bank of Greece S.A., has issued a letter of guarantee of €15,9 million in favour of the bank that supports the recoverability of the outstanding loan granted to NBG Leasing IFN S.A. The guarantee expires on 31 July 2018. The remaining amount of €10,4 million is secured through a cash collateral lien agreement with the parent company (see below).

(ii) As of 31 December 2017 and 2016, the Bank has in place lien agreements from National Bank of Greece S.A., which act as guarantees for the purposes of securing the following assets as at the reporting date.

	2017	2016
	€	€
Loans and advances to customers	**26.302.557**	136.225.703

Based on the lien agreements in case of default of any of the issuers of the underlying assets, the Bank can set off the receivable amounts with the equivalent funds placed by National Bank of Greece S.A.

(iii) On 8 March 2017, the Bank's entire portfolio of Greek Syndicated loans amounting of €118m has been transferred to another subsidiary of the parent company at no gain, no loss. Consequently, deposits from the parent company of the same amount were settled.

(iv) **Key management personnel related transactions**

	2017	2016
	€	€
Loans and advances to members of the Board of Directors and connected persons	**2.109**	1.469
Deposits of members of the Board of Directors and connected persons	**94.568**	314.117
Interest expense	**240**	1..139

Connected persons include spouses, minor children and companies in which Directors or key management personnel hold, directly or indirectly, at least 20% of the voting shares.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. All transactions with key management personnel are made on the same terms as those applicable to the rest of the Bank's employees.

34. RELATED PARTY TRANSACTIONS (Cont'd)

(iv) Key management personnel related transactions (cont'd)

The remuneration of Directors and other members of key management during the year was as follows:

	2017 €	2016 €
Fees paid to Directors as members of the Board	**68.192**	24.983
Executive Directors emoluments		
Salaries and other short-term benefits	**141.723**	424.915
Employer's contributions	**3.251**	3.708
	144.974	428.623
Total compensation	**213.166**	453.606

35. OPERATING ENVIRONMENT OF THE BANK

The Cypriot economy has recorded positive growth in 2016 and 2017 after overcoming the economic recession of recent years. The overall economic outlook of the economy remains favorable, however there are still downside risks emanating from the still high levels of non-performing loans, the public debt ratio, as well as possible deterioration of the external environment for Cyprus.

Despite the important steps taken towards restoring the economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high volume of non-performing exposures of the Banking sector, relatively high unemployment rates and the implementation of the privatization initiatives and public sector reforms.

This operating environment may have a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

The high levels of non-performing exposures (NPEs) pose major risks to the stability of the banking system and to the outlook for the economy. Unavoidably, the high level of NPEs causes an erosion of the Banks' income and may cause additional provisions and effectively reduced profit from ordinary operations. At the same time the Bank recognizes that the real estate market which is a significant driver of the provisions for impairment of customer loans did not as yet show positive signs, thus, continues to put further pressure on the profitability. Within the framework of tackling the Bank's loan portfolio quality, the Bank is focusing on restructuring loans in sustainable manner and on mutually beneficial terms.

On the basis of the evaluation performed, impairment has been recognized as disclosed in Note 19.

Under the current economic environment, the Management acts with flexibility and adaptability aiming primarily to efficiently manage NPL's, penetrate new market segments by targeting new sectors of economic activity (renewable sources of energy, etc.).

36. RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, market risk, (including currency risk and interest rate risk) and liquidity risk. The Bank's overall risk management policies focus on the unpredictability of financial markets and seek to minimise the potential adverse effects on the Bank's financial performance, financial position and cash flows.

a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Impairment provisions are recognised for losses that have been incurred at the balance sheet date. Significant changes in the economy or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Therefore, management carefully manages its exposure to credit risk.

The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank's exposure and the credit ratings of its counterparties are regularly monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Management Committee at least on an annual basis.

The loan portfolio is assessed on the basis of customer creditworthiness, the sector of the economy in which the customer operates and the country of operation and is regularly audited by the Internal Audit department. The Bank's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in the summary of significant accounting policies.

Maximum exposure to credit risk and collateral and other credit enhancements

The main types of collateral obtained by the Bank for loans and advances to customers are mortgages of properties, blocked deposits, bank guarantees, pledges of equity securities of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees.

Collateral held as security for other financial assets is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (Cont'd)

Maximum exposure to credit risk and collateral and other credit enhancements (cont'd)

The table below represents the maximum exposure to credit risk, the tangible and measurable collateral and other credit enhancements held as well as the net exposure to credit risk. Personal guarantees are an additional form of collateral, but are not included in the information below as their fair value cannot be easily and accurately estimated.

		Fair value of collateral and credit enhancements held by the Bank					
	Maximum exposure to credit risk €	Cash €	Securities €	Property €	Other €	Total collateral €	Net exposure to credit risk €
2017							
Balances with Central Bank of Cyprus	50.355.929	-	-	-	-	-	50.355.929
Deposits with banks	79.920.954	-	-	-	-	-	79.920.954
Loans and advances to customers	494.259.271	26.361.558	1.271.510	384.513.615	20.057.363	432.204.046	62.055.225
Debt securities classified as loans and receivables	123.084.236	-	-	-	-	-	123.084.236
Other assets	2.972.730	-	-	-	-	-	2.972.730
On-balance sheet total	750.593.120	26.361.558	1.271.510	384.513.615	20.057.363	432.204.046	318.389.074
Contingent liabilities and commitments							
Acceptances and endorsements	785.142						
Letters of guarantee	22.523.398						
Letters of credit	3.029.408						
Undrawn credit lines and other commitments to lend	101.193.470						
Off-balance sheet total	127.531.418						
Total credit risk exposure	878.124.538						

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported on the balance sheet.

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (Cont'd)

Maximum exposure to credit risk and collateral and other credit enhancements (cont'd)

		Fair value of collateral and credit enhancements held by the Bank					
	Maximum exposure to credit risk €	Cash €	Securities €	Property €	Other €	Total collateral €	Net exposure to credit risk €
2016							
Balances with Central Bank of Cyprus	64.004.294	-	-	-	-	-	64.004.294
Deposits with banks	59.683.336	-	-	-	-	-	59.683.336
Loans and advances to customers	662.176.710	152.211.984	180.182	404.330.631	19.582.873	576.305.671	85.871.040
Debt securities classified as loans and receivables	95.080.348	-	-	-	-	-	95.080.348
Other assets	470.931	-	-	-	-	-	470.931
	881.415.619	152.211.984	180.182	404.330.631	19.582.873	576.305.671	305.109.947
Contingent liabilities and commitments							
Acceptances and endorsements	10.334.730						
Letters of guarantee	25.799.161						
Letters of credit	7.723.968						
Undrawn credit lines and other commitments to lend	93.627.806						
Off-balance sheet total	137.485.665						
Total credit risk exposure	1.018.901.284						

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported on the balance sheet.

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Credit quality of loans and other advances to customers

The following definitions apply for the purpose of completing the tables that follow:

Neither past due nor impaired

Loans reported as "neither past due nor impaired" include loans with no contractual payments in arrears and no other indications of impairment.

Past due but not impaired

Past due loans are those with delayed payments or in excess of authorised credit limits, but which are not impaired unless specific information indicates to the contrary.

Impaired loans

Impaired loans are defined as follows:

- Loans for which an impairment amount has been calculated under the individual assessment method.
- Non-performing loans which are Trouble Debt Restructured.
- Non-performing loans collectively impaired with arrears over 90 days.

	2017	2016
	€	€
Neither past due nor impaired	**229.322.063**	330.627.406
Past due but not impaired	**52.916.192**	65.385.400
Impaired	**464.925.082**	544.299.277
Total: gross amount of loans and advances to customers	**747.163.337**	940.312.083

Loans and other advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Bank using internal systems.

The following table analyses the Bank's loans and advances that were neither past due nor impaired, in accordance with internal credit rating category.

	Loan balance plus accrued interest	
	2017	2016
	€	€
Credit rating category:		
Low risk	**222.156.094**	330.523.109
High risk	**7.165.969**	104.297
	229.322.063	330.627.406

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Loans and other advances to customers that are past due but not impaired

	2017 €	2016 €
Past due up to 30 days	**45.424.358**	41.172.496
Past due 31 – 60 days	**5.875.551**	3.152.521
Past due 61 – 90 days	**309.310**	1.542.794
Past due over 90 days	**1.306.973**	19.517.589
	52.916.192	65.385.400

The collateral consists primarily of real estate, cash and letters of guarantee. More details are set out above in "Collateral and other credit enhancements".

The fair value of collateral that the Bank holds for loans and other advances to customers that are past due but not impaired as at 31 December 2017 amounts to €39.961.693 (2016: €54.990.302).

The fair value of collateral is based on valuation techniques commonly used for the corresponding assets, which include reference to the market prices.

Impaired loans and other advances

The analysis of loans and other advances that are impaired is as follows:

	2017 €	2016 €
Trade and services	**141.225.007**	163.358.170
Construction	**131.294.760**	144.451.950
Manufacturing	**42.141.300**	46.081.650
Tourism	**17.406.772**	19.627.884
Retail	**83.741.857**	117.858.488
Other	**49.115.386**	52.921.135
	464.925.082	544.299.277

Analysis by geographical area:

	2017 €	2016 €
Cyprus	**443.928.698**	496.219.908
Other countries	**20.996.384**	48.079.369
	464.925.082	544.299.277

The fair value of collateral that the Bank holds for impaired loans as at 31 December 2017 amounts to €256.020.927 (2016: €302.361.855).

The collateral consists primarily of real estate, cash and letters of guarantee. More details are set out above in "Collateral and other credit enhancements".

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Forborne exposures

The credit tools commonly used by the Bank to manage liquidity problems faced by its clients in the repayment of their debts is the restructuring of their finances by renegotiating the current terms of the loan agreement.

Regulation EU no. 575/2013 established the framework for prudential requirements on the management by credit institutions of loans arrears and non-performing loans.

The European Banking Authority (EBA) published in 2014 its technical standards with respect to non-performing and forborne exposures. Exposures include all debt instruments (loans and advances and debt securities) and off-balance sheet exposures, except those held for trading exposures.

According to the EBA technical standards, forborne exposures are those debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor (including part of total refinancing of a debt contract) which aim to address existing or anticipated difficulties on the part of the debtor to service debt in accordance with the current repayment schedule. Changes in the terms and conditions of a contract that do not occur because the customer is not able to meet the terms and conditions of the contract due to financial difficulties do not constitute forbearance measures.

The most significant prerequisite for the forbearance of an exposure is the existence of customer repayment ability i.e. the customer is viable.

The forbearance measures to be taken and their duration thereof are determined on the basis of specific customer information, based on the prevailing economic conditions and in accordance with relevant legislation or regulatory Directives.

Every effort is being taken by the Bank for the proper assessment of the new repayment schedule on the basis of the forbearance measures, in order to avoid a new default.

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

The below tables present the Bank's forborne exposures in accordance with the EBA technical standards, the tangible and measurable collateral and other credit enhancements held and the net exposure to credit risk.

	Maximum exposure to credit risk €	Fair value of collateral €	Net exposure to credit risk €
2017			
Neither past due nor impaired	**44.243.092**	**43.766.351**	**476.741**
Past due but not impaired	**12.150.365**	**12.145.682**	**4.683**
Impaired	**37.597.805**	**33.578.334**	**4.019.471**
	93.991.262	**89.490.367**	**4.500.895**

	Maximum exposure to credit risk €	Fair value of collateral €	Net exposure to credit risk €
2016			
Neither past due nor impaired	64.704.014	64.032.512	671.502
Past due but not impaired	5.421.805	5.420.668	1.137
Impaired	87.322.157	82.599.238	4.722.919
	157.447.976	152.052.418	5.395.558

According to the Central Bank of Cyprus directive on Loan Impairment and Provisions Practices (February 2014), the credit institutions are obliged to publish Tables A and B as presented below. It is noted that the Central Bank of Cyprus on 12.02.2018, following the introduction of IFRS 9 as from 1.1.2018, repealed the abovementioned Directive and Tables A and B.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Analysis of loan portfolio from banking services according to performance status as at 31 December 2017

Table A

	Gross carrying amount				Accumulated impairment			
		of which non-performing exposures	of which exposures with forbearance measures	of which on non-performing exposures		of which non-performing exposures**	of which exposures with forbearance measures	of which on non performing exposures
Loans and advances*								
General governments	892.426				15.662			
Other financial corporations	74.291.000	36.587.510	26.617.324	26.617.324	9.668.139	9.619.737	3.110	3.110
Non-financial corporations	474.810.677	319.172.387	44.987.348	33.696.761	167.806.467	164.736.379	2.922.752	2.774.295
Of which: Small and Medium-sized Enterprises	444.794.064	318.731.574	44.987.348	33.696.761	167.390.148	164.519.646	2.722.752	2.774.295
Of which: Commercial real estate	91.319.260	67.474.936	13.795.676	7.591.376	30.889.899	30.419.741	845.916	835.754
By sector:								
1. G Wholesale & Retail Trade	182.833.698	111.348.210			69.837.138			
2. F Construction	140.417.843	101.357.235			36.509.723			
3. C Manufacturing	54.403.989	38.190.130			23.671.394			
4. L Real Estate Activities	38.726.939	37.010.630			17.681.371			
5. I Accommodation & Food Services Activities	19.273.035	10.388.314			4.705.852			
Other sectors	39.155.173	20.877.868			15.400.989			
Households	197.170.062	152.333.187	22.386.588	19.975.202	75.413.789	74.409.660	1.947.066	1.908.233
Of which: Residential mortgage loans	67.144.091	48.901.553	15.349.604	14.321.995	15.816.480	15.649.862	546.952	534.043
Of which: Credit for consumption	43.602.653	29.634.570	3.563.536	2.554.927	20.133.933	19.513.884	1.063.195	1.057.311

*Excluding loans and advances to central banks and credit institutions.

**As per EBA definition.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Analysis of loan portfolio from banking services according to performance status as at 31 December 2016

Table A

	Gross carrying amount				Accumulated impairment			
		of which non-performing exposures	of which exposures with forbearance measures			of which non-performing exposures**	of which exposures with forbearance measures	
				of which on non-performing exposures				of which on non performing exposures
Loans and advances*								
General governments	1.201.162	-	-	-	21..082	-	-	-
Other financial corporations	75.773.725	36.904.812	26.886.329	26.886.329	9.698.908	9.646.122	6.339	6.339
Non-financial corporations	626.637.209	366.657.203	105.016.418	72.208.735	163.628.386	159.614.192	3.576.078	3.195.241
Of which: Small and Medium-sized Enterprises	581.945.281	364.290.372	105.016.327	72.208.735	161.531.828	157.721.557	3.576.078	3.195.241
Of which: Commercial real estate	95.505.790	64.077.338	11.731.211	7.996.805	29.126.231	28.350.252	885.237	847.383
By sector:								
1. G Wholesale & Retail Trade	221.850.331	118.132.485			69.470.465			
2. F Construction	146.919.861	99.252.860			31.074.741			
3. C Manufacturing	81.215.331	52.308.180			25.362.126			
4. L Real Estate Activities	74.833.801	43.427.748			14.896.316			
5. I Accommodation & Food Services Activities	30.432.860	12.727.763			4.287.269			
Other sectors	71.385.025	40.808.167			18.537.469			
Households	236.699.987	185.157.830	25.545.228	19.524.331	104.786.997	103.468.873	1.679.318	1.562.765
Of which: Residential mortgage loans	68.645.835	46.767.179	16.337.061	13.907.399	15.498.963	15.208.813	288.480	240.766
Of which: Credit for consumption	53.483.340	38.367.447	3.289.150	3.003.998	26.404.692	25.583.040	1.119.558.	1.104.583

*Excluding loans and advances to central banks and credit institutions.
**As per EBA definition

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Non-performing facilities and impairment amount analysed on the basis of the origination date of the credit facilities (excluding general governments) as at 31 December 2017

Table B

		Gross carrying amount of total loans		Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment
Loan origination date*												
Within 1 year	35.807.671	14.329.892	431.902	16.670.946	3.259.984	49..925	557.386	-	-	18.579.340	11.069.908	381.978
1 - 2 years	38.924.348	21.549.168	2.488.218	29.417.472	15.636.435	1.391.569	286.296	-	-	9.220.580	5.912.733	1.096.649
2 - 3 years	71.002.670	10.283.598	2.870.960	28.788.922	7.278.049	1.851.441	36.695.941	314.768	3.110	5.517.807	2.690.781	1.016.409
3 - 5 years	30.913.932	13.646.093	2.017.145	21.722.432	9.038.965	489.885	194	-	-	9.191.306	4.607.128	1.527.260
5 - 7 years	46.783.119	40.818.378	5.850.181	10.836.446	9.457.165	4.453.464	26.303.258	26.302.557	-	9.643.416	5.058.656	1.396.717
7 – 10 years	114.372.538	78.911.786	29.295.963	87.073.266	60.490.026	22.493.207	199.571	153.801	66.365	27.099.701	18.267.959	6.736.391
More than 10 years	408.467.460	328.554.172	205.811.415	280.301.193	214.011.764	134.006.889	10.248.354	9.816.385	9.550.262	117.917.913	104.726.022	62.254.264
	746.271.738	508.093.087	248.765.784	474.810.677	319.172.388	164.736.380	74.291.000	36.587.511	9.619.737	197.170.063	152.333.187	74.409.668

* Loan origination due is defined as the contractual loan origination date for each account.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Non-performing facilities and impairment amount analysed on the basis of the origination date of the credit facilities (excluding general governments) as at 31 December 2016

Table B

		Gross carrying amount				Accumulated impairment						
		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment
Loan origination date*												
Within 1 year	53.234.309	30.264.284	2.167.714	42.177.773	23.804.211	1.160.973	333.503	-	-	10.723.033	6.460.073	1.006.741
1 - 2 years	112.901.891	23.131.097	2.192.341	67.045.652	19.644.774	1.111.923	38.578.670	583.227	6.341	7.277.569	2.903.096	1.074.077
2 - 3 years	43.960.075	21.894.714	679.561	28.989.133	10.593.427	370.616	5.416	-	-	14.965.526	11.301.287	308.945
3 - 5 years	103.222.862	63.418.494	5.057.112	64.879.266	30.202.504	3.073.401	26.303.641	26.303.104	-	12.039.955	6.912.886	1.983.711
5 - 7 years	55.881.796	17.872.384	3.849.724	40.900.298	14.738.390	2.514.798	6.511	6.511	2.495	14.974.987	3.127.483	1.322.431
7 – 10 years	157.862.218	100.762.656	38.320.727	124.520.071	75.585.167	30.120.559	244.514	146.543	63.409	33.097.633	25.030.946	8.136.759
More than 10 years	412.047.770	331.376.216	220.462.008	258.125.016	192.088.730	121.261.922	10.301.470	9.865.427	9.573.877	143.621.284	129.422.059	89.626.209
	939.110.921	**588.719.845**	**272.729.187**	**626.637.209**	**366.657.203**	**159.614.192**	**75.773.725**	**36.904.812**	**9.646.122**	**236.699.987**	**185.157.830**	**103.458.873**

* Loan origination due is defined as the contractual loan origination date for each account.

36. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Credit quality of the Bank's assets exposed to credit risk other than loans and other advances to customers – Analysis by rating agency

Balances with Central Bank of Cyprus and deposits with banks are analysed to Moody's rating as follows:

	2017 €	2016 €
Aaa – Aa3	**12.847.690**	14.104.429
A1 – A3	**11.263.279**	9.187.737
Baa1 – Baa3	**-**	19.670.548
Ba1	**50.355.929**	-
B1 – B3	**-**	66.750.314
Caa1 – Caa3	**55.706.573**	16.596.109
Unrated	**103.412**	124.513
	130.276.883	126.433.650

Investments in debt securities are analysed by Moody's rating as follows:

	2017 €	2016 €
Ba3 (2016: B1)	**123.084.236**	95.080.348

	2017 €	2016 €
Issued by:		
Cyprus sovereign	**123.084.236**	95.080.348
	123.084.236	95.080.348

	2017 €	2016 €
Classified as:		
Loans and receivables	**123.084.236**	95.080.348
	123.084.236	95.080.348

The above debt securities are neither past due nor impaired.

36. RISK MANAGEMENT (Cont'd)

b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet current and future payments obligations as and when they fall due. This risk includes the possibility that the Bank may have to raise funding at a higher cost or sell assets at a discount.

Bank assets are mainly funded by deposits. The maturity of the deposits is actively monitored in order to avoid concentration of funding maturities at any point in time. The responsibility for the management of liquidity rests with the treasury department.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity requirements, in order to also ensure compliance with the limits set by the applicable regulatory limits.

Analysis of financial assets and financial liabilities by remaining contractual maturity

The following liquidity tables analyse the financial assets and financial liabilities of the Bank into relevant maturity groupings based on their remaining contractual maturity at 31 December and is based on undiscounted cash flows.

Financial assets

The financial assets are presented on the same basis as the one provided to the management of the Bank and to the Central Bank of Cyprus, as this presentation is considered to be the most appropriate presentation of the Bank's liquidity. Accordingly, the analysis of the financial assets does not include any interest receivable cash flows.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Balances with banks are analysed in the time bands according to the number of days remaining from 31 December until their contractual maturity date. Financial assets with no contractual maturity (i.e. equity securities) are included in the "over 5 years" time band. The investments are classified in the relevant time band according to their contractual maturity.

Financial liabilities

All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December. Fixed deposits are classified in time bands based on their contractual maturity. The amounts presented in the table below are not equal to the amounts presented on the statement of financial position, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Contingent liabilities and commitments

The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Bank after giving relevant notice to the customers. Thus, the unutilised credit facilities are included within the first maturity time band.

36. RISK MANAGEMENT (Cont'd)

b) Liquidity risk (cont'd)

Analysis of financial assets and financial liabilities by remaining contractual maturity (cont'd)

	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
2017						
Financial assets						
Cash and balances with Central Bank of Cyprus	37.414.575	14.217.499	908.024	10.304.096	-	62.844.194
Deposits with banks	79.920.954	-	-	-	-	79.920.954
Loans and advances to customers	110.921.350	2.379.346	52.684.595	88.968.144	239.305.836	494.259.271
Available-for-sale investments	-	-	-	-	4.889.196	4.889.196
Investments classified as loans and receivables	35.912.015	66.445.213	-	-	20.727.008	123.084.236
Other assets	-	2.324.290	867.691	-	-	3.191.981
	264.168.894	85.366.348	54.460.310	99.272.240	264.922.040	768.189.832
Financial liabilities						
Deposits from banks	7.273.594	10.403.575	-	2.681.250	2.781.882	23.140.301
Deposits and other customer accounts	281.672.714	63.976.463	227.040.433	-	-	572.689.610
Other Liabilities	1.885.703	-	6.213.904	2.648.572	-	10.748.179
	290.832.011	74.380.038	233.254.337	5.329.822	2.781.882	606.578.090
Off-balance sheet items						
Acceptances and endorsements	470.430	314.712	-	-	-	785.142
Letters of guarantee	2.497.895	3.688.567	7.140.098	7.474.650	1.722.188	22.523.398
Letters of credit	98.614	2.540.454	390.340	-	-	3.029.408
Amount of unutilised credit facilities	101.193.470	-	-	-	-	101.193.470
	104.260.409	6.543.733	7.530.438	7.474.650	1.722.188	127.531.418

	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
2016						
Financial Assets						
Cash and balances with Central Bank of Cyprus	40.030.534	18.849.074	12.959.333	8.253.305	-	80.092.246
Deposits with banks	59.683.336	-	-	-	-	59.683.336
Loans and advances to customers	118.820.738	6.227.582	62.455.810	167.576.269	307.096.311	662.176.710
Available-for-sale investments	-	-	-	-	4.295.341	4.295.341
Investments classified as loans and receivables	-	39.609.852	-	35.325.843	20.144.653	95.080.348
Other assets	-	-	470.931	-	-	470.931
	218.534.608	64.686.508	75.886.074	211.155.417	331.536.305	901.798.912

36. RISK MANAGEMENT (Cont'd)

b) Liquidity risk (cont'd)

Analysis of financial assets and financial liabilities by remaining contractual maturity (cont'd)

	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
Financial liabilities						
Deposits from banks	126.952.577	18.422.692	-	3.753.750	2.781.882	151.910.901
Deposits and other customer accounts	266.848.345	90.725.971	213.508.563	-	-	571.082.879
Other Liabilities	5.117.106	-	5.790.559	2.075.242	-	12.982.907
	398.918.028	109.148.663	219.299.122	5.828.992	2.781.882	735.976.687
Off-balance sheet items						
Acceptances and endorsements	3.522.644	2.217.023	4.595.063	-	-	10.334.730
Letters of guarantee	4.137.356	4.211.333	7.360.232	8.332.612	1.757.628	25.799.161
Letters of credit	1.274.201	4.636.048	1.813.719	-	-	7.723.698
Amount of unutilised credit facilities	93.627.806	-	-	-	-	93.627.806
	102.562.007	11.064.404	13.769.014	8.332.612	1.757.628	137.485.665

Market risk is the risk of loss from adverse changes in market prices. The Bank is exposed primarily to financial risks emanating from changes in foreign currency exchange rates and interest rates.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the interest rate repricing of assets and liabilities. The Bank monitors on a continuous basis the interest rate movements and the repricing or maturity structure of its assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. The difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to find the annual impact on earnings of any changes in interest rates for the next twelve months for each currency.

Sensitivity analysis
The table below indicates the effect on the Bank's net profit and equity, if interest rates for the main currencies were 50 basis points higher. A positive number below indicates an increase in profit/equity. For a decrease of 50 basis points there would be an equal and opposite impact on the net profit and equity.

36. RISK MANAGEMENT (Cont'd)

c) Market risk

Interest rate risk (cont'd)

Sensitivity analysis (cont'd)

	Euro €'000	USD Dollars €'000	British Pound €'000	Other Currencies €'000	Total €'000
Change in interest rates					
2017					
+50 b.p. in all currencies	(120)	(93)	(38)	(16)	(267)
2016					
+50 b.p. in all currencies	37	(138)	(42)	(15)	(158)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. It arises from an open position in a foreign currency, creating an exposure to a change in the relevant exchange rate. This may arise from the holding of financial assets in one currency funded by liabilities in another currency.

In order to manage currency risk, the Bank has approved open position limits for each currency. Adherence to the limits is monitored on a daily basis by the treasury department.

The table below sets out the Bank's foreign exchange risk resulting from its open foreign exchange positions. A positive number below indicates an increase in profit/equity. For a corresponding decrease there would be an equal and opposite impact on profit/equity.

	Open position €'000	Change in exchange rate %	Impact on net profit/ equity €'000
Currency			
2017			
US Dollar	44	+5	(2)
British Pound	(125)	+5	6
Other currencies	2.048	+5	(427)
2016			
US Dollar	158	+5	8
British Pound	(1.032)	+5	(52)
Other currencies	1.798	+5	90

36. RISK MANAGEMENT (Cont'd)

d) Operational risk

Operational risk is the risk of loss arising from fraud, error, omission, systems failure or other external events. The Bank manages operational risk through the various established policies, limits and written procedures. The Risk Management Unit, in cooperation with all units and divisions, is responsible for managing the Bank's operational risk. Furthermore, this is supported by the reviews undertaken by the Internal Audit division.

e) Regulatory risk

The operations of the Bank are supervised by the Central Bank of Cyprus. Licensed banking institutions in Cyprus have to comply with the requirements of both the European Union and Cyprus regulatory frameworks. Legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may adversely affect the results and financial position of the Bank.

f) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

With reference to the above, the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

Fair value measurements recognised in the statement of financial position

The Bank uses the following hierarchy for determining and disclosing fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques.

- The fair values of available-for-sale investments that are traded on inactive market are determined with reference to quoted market prices. Unquoted equity securities are valued using valuation techniques that include inputs from non-observable data. The non-observable inputs to the models for the valuation of unquoted equity include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.
- The fair values of derivative instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

36. RISK MANAGEMENT (Cont'd)

f) Fair value of financial instruments (cont'd)

The following table provides the Bank's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
2017				
Financial assets at FVTPL				
Derivative financial assets	-	16.517	-	16.517
Available-for-sale investments				
Equities	2.693.002	-	2.196.194	4.889.196
Total	**2.693.002**	**16.517**	**2.196.194**	**4.905.713**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	**7.581**	-	**7.581**
Total	-	**7.581**	-	**7.581**

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
2016				
Financial assets at FVTPL				
Derivative financial assets	-	14.565	-	14.565
Available-for-sale investments				
Equities	2.099.147	-	2.196.194	4.295.341
Total	2.099.147	14.565	2.196.194	4.309.906
Financial liabilities at FVTPL				
Derivative financial liabilities	-	35.943	-	35.943
Total	-	35.943	-	35.943

During 2017 and 2016 there were no transfer from Level 1 and Level 2.

Reconciliation of Level 3 fair value measurements

	Available-for-sale unlisted shares 2017 €	2016 €
Balance of 1 January	2.196.194	2.094.152
Total gains in other comprehensive income	-	102.042
Balance at 31 December	2.196.194	2.196.194

For the valuation at fair value of the investments in equity securities which are classified as Level 3, a valuation method based on the Bank's equity at which the investment is held as well as estimates of the management of the Bank have been used.

36. RISK MANAGEMENT (Cont'd)

f) Fair value of financial instruments (cont'd)

The following table presents the carrying amounts and the fair value of financial instruments not measured at fair value, grouped into Levels 1 to 3.

	Level 1 €	Level 2 €	Level 3 €	Fair value for disclosure purposes €	Carrying amount €
2017					
Financial assets measured at amortised costs					
Loans and advances to customers	-	-	**494.259.271**	**494.259.271**	**494.259.271**
Deposits with banks	-	**79.920.954**	-	**79.920.954**	**79.920.954**
Investments classified as loans and receivables	-	**123.084.236**	-	**123.084.236**	**123.084.236**
Financial liabilities measured at amortised costs					
Deposits and other customer accounts	-	**572.689.610**	-	**572.689.610**	**572.689.610**
Deposits from banks	-	**23.143.722**	-	**23.143.722**	**23.143.722**

	Level 1 €	Level 2 €	Level 3 €	Fair value for disclosure purposes €	Carrying amount €
2016					
Financial assets measured at amortised costs					
Loans and advances to customers	-	-	662.176.710	662.176.710	662.176.710
Deposits with banks	-	59.683.336	-	59.683.336	59.683.336
Investments classified as loans and receivables	-	95.080.348	-	95.080.348	95.080.348
Financial liabilities measured at amortised costs					
Deposits and other customer accounts	-	571.084.789	-	571.084.789	571.084.789
Deposits from banks	-	149.129.018	-	149.129.018	149.129.018

37. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that the Bank complies with regulatory capital requirements and that the Bank maintains adequate capital ratios in order to support its business and to maximise shareholders' value.

As from 1 January 2014, the new Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2019.

The Bank's capital position under CRD IV/CRR is presented below.

	2017 **€'000**	**2016** **€'000**
Common Equity Tier (CET1)	**177.055**	183.042
Additional Tier 1 Capital (ATI)	-	-
Tier 2 Capital (T2)	-	-
Regulatory Capital	**177.055**	183.042
Risk weighted assets – credit risk	**598.864**	599.199
Risk weighted assets – market risk	**2.600**	2.250
Risk weighted assets – operational risk	**60.675**	71.463
Total risk weighted assets	**662.139**	672.912

37. CAPITAL MANAGEMENT (Cont'd)

	2017	**2016**
	%	**%**
Common Equity Tier 1 (CET1) ratio	**26,74**	27,20
Tier 1 ratio	**26,74**	27,20
Total capital ratio	**26,74**	27,20

38. EVENTS AFTER THE REPORTING PERIOD

The Bank disposed its share in National Insurance (Cyprus) Limited on 12 January 2018 for an amount of €1.581.327, realising a gain on disposal of €357.693 during 2018.

Independent auditor's report on pages 6 to 10.