

**NATIONAL BANK OF GREECE
(CYPRUS) LIMITED**

**Report and Consolidated Financial Statements
Year ended 31 December 2016**

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

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NATIONAL BANK OF GREECE (CYPRUS) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Board of Directors

Louka Katseli, Independent, Non-Executive Member, Chairwoman
Pavlos Mylonas, Non-Executive Member, Vice Chairman
Marinis Stratopoulos, Non-Executive Member, Vice Chairman
Nicolaos Th. Beis, Chief Executive Officer
Ioannis Tzimos, Executive Member
Fotini Ioannou, Non-Executive Member
Stavros Stavrou, Independent, Non-Executive Member
Mark Klerides, Independent, Non-Executive Member

The Board of Directors is formatted as follows by 31.12.2016:

Louka Katseli, Independent, Non-Executive Member, Chairwoman
Pavlos Mylonas, Non-Executive Member, Vice Chairman
Marinis Stratopoulos, Non-Executive Member, Vice Chairman
Nicolaos Th. Beis, Chief Executive Officer
Ioannis Tzimos, Executive Member
Fotini Ioannou, Non-Executive Member
Stavros Stavrou, Independent, Non-Executive Member
Mark Klerides, Independent, Non-Executive Member

Secretary

Lucia Pagdati

Independent Auditors

Deloitte Limited
Certified Public Accountants and Registered Auditors
Maximos Plaza, Tower 1, 3rd floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus

Legal Advisers

Chrysses Demetriades & Co
Velaris & Velaris LLC

Registered Office

15 Arch. Makarios III, 1065 Nicosia

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

MANAGEMENT REPORT YEAR ENDED 31 DECEMBER 2016

The Board of Directors presents its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The main activity of the Group is the provision of a wide range of banking and financial services. The Company is a wholly owned subsidiary of National Bank of Greece S.A. Group. The Company owns 100% of the shares of National Securities Cyprus Limited and 10,91% of the shares of National Insurance (Cyprus) Ltd.

OPERATING ENVIRONMENT

The operating environment of the Group is presented in Note 33 of the Consolidated Financial Statements.

FINANCIAL RESULTS

As presented on page 8 of the consolidated financial statements, the profit of the Group after taxation amounted to €4.403.912 (2015: profit of €9.637.417).

The main financial highlights for the year are set out below:

	2016 €'000	2015 €'000
Net Interest Income	26.270	29.100
Fee and Commission Income	5.443	5.235
Other Income	2.011	2.370
Staff Costs	13.423	13.039
Other Operating Expenses	6.045	6.958
Provision for impairment of Loans and Advances	8.798	5.649
Profit for the year	4.404	9.637
Gross Loans	940.312	965.331
Customer deposits	571.083	614.777
Total Assets	923.013	951.275
Equity	188.086	183.077
Net Interest Margin	3,2%	3,1%
Cost to Income ratio	57,7%	54,5%
Return on average equity	2,4%	5,4%
Loans to Deposits (net)	115,9%	114,5%
NPEs to Gross Loans	62,6%	59,9%
Total capital ratio	27,2%	24,9%
CET 1	27,2%	24,9%

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

MANAGEMENT REPORT (Cont'd) YEAR ENDED 31 DECEMBER 2016

BRANCH NETWORK

The Bank operates in Cyprus through 14 Branches (9 Retail, 2 Business Centres, 2 IBUs and 1 Special Credit Unit). The Bank has also established a Representative Office in Moscow, Russia.

GOING CONCERN

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

Despite uncertain economic environment in Cyprus as described in Note 33 of the consolidated financial statements, the management of the Group strongly believes, that the Group has the ability to continue its operations as a going concern.

RISK MANAGEMENT

The Group is exposed to various risks, the most important of which are Credit Risk, Liquidity Risk, and Market Risk. Detailed information relating to Group risks is set out in Note 34 of the consolidated financial statements.

EXPECTED FUTURE DEVELOPMENTS OF THE GROUP / STRATEGIG TARGETS

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

As they anticipate growth of the economy for the forthcoming years, they believe that new opportunities will arise in new business areas (i.e. Leasing), as well as expansion in Balance Sheet and consequently, Market Share, Profitability, etc.

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

- Effective management of performing portfolio in order to restrain the non-performing loans portfolio.
- Maintain healthy – low cost liquidity, along with adequate Liquidity Ratios (CBC requirement).
- 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 Company.

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2016.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in Note 36 of the Consolidated Financial Statements.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

MANAGEMENT REPORT (Cont'd) YEAR ENDED 31 DECEMBER 2016

BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2016 and at the date of this report are shown on page 1. All the members of the Board of Directors will continue in office.

There were no significant changes in the assignment of responsibilities of the Board of Directors.

INDEPENDENT AUDITORS

The Board of Directors will place a resolution before the annual general meeting to appoint auditors for the ensuing year.

By order of the Board of Directors



.....
Louka Katseli
Chairwoman



.....
Lucia Pagdati
Secretary

Nicosia, 30 May 2017

Independent auditor's report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of National Bank of Greece Limited (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 8 to 64 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated 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.

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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

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Board Members: Christis M. Christoforou (Chief Executive Officer), Eleftherios N. Philippou, Nicos S. Kyriakides, Nicos D. Papakynacou, Athos Chrysanthou, Costas Georghadjis, Antonis Taliotis, Panos Papadopoulos, Pieris M. Markou, Nicos Charalambous, Nicos Spanoudis, Maria Paschalis, Alexis Agathocleous, Alkis Christodoulides, Christakis Ioannou, Panicos Papamichael, Christos Papamarkides, George Martides, Kerry Whyte, Andreas Georgiou, Christos Neocleous, Demetris Papapericleous, Andreas Andreou, Alecos Papalexandrou, George Pantelides, Panayiota Vayyanou, Agis Agathocleous, Michael Christoforou (Chairman Emeritus).

Deloitte Limited is the Cyprus member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.com/about for a detailed description of the legal structure of DTTL.

Deloitte Limited is a private company, registered in Cyprus (Reg. No. 162812). Offices: Nicosia, Limassol, Larnaca

Member of Deloitte Touche Tohmatsu Limited

Independent auditor's report (Cont'd)

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

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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Independent auditor's report (Cont'd)

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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.

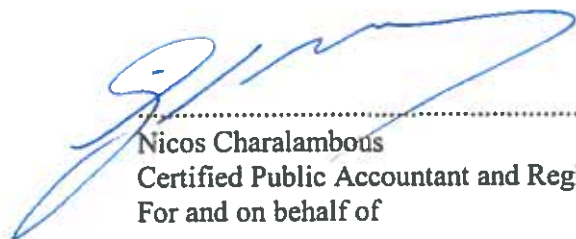
Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, 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 consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 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.



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Nicos Charalambous
Certified Public Accountant and Registered Auditor
For and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors
Maximos Plaza, Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus

Limassol, 30 May 2017

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 €	2015 €
Interest income	5	34.338.757	44.720.475
Interest expense	6	(8.068.534)	(15.620.618)
Net interest income		<u>26.270.223</u>	<u>29.099.857</u>
Fee and commission income	7	5.443.441	5.235.032
Net foreign exchange gains	8	667.951	557.964
Other income	9	1.343.127	1.811.958
		<u>33.724.742</u>	<u>36.704.811</u>
Staff costs	10	(13.422.783)	(13.038.952)
Depreciation of property, plant and equipment		(325.653)	(346.918)
Amortisation of intangible assets		(443.834)	(382.254)
Other operating expenses	11	(5.274.948)	(6.229.171)
		<u>(19.467.218)</u>	<u>(19.997.295)</u>
Profit before impairment of loans and advances to customers		14.257.524	16.707.516
Provision for impairment of loans and advances to customers	17	(8.797.975)	(5.649.412)
Profit before tax		<u>5.459.549</u>	<u>11.058.104</u>
Tax	12	(1.055.637)	(1.420.687)
PROFIT FOR THE YEAR		<u>4.403.912</u>	<u>9.637.417</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Loss on revaluation of properties		-	(293.277)
Tax relating to items that will not be reclassified subsequently to profit or loss		342.516	-
		<u>342.516</u>	<u>(293.277)</u>
<i>Items that may be reclassified subsequently to profit or loss</i>			
Gain on revaluation of available-for-sale investments		263.274	400.881
Other comprehensive income for the year, net of tax		<u>605.790</u>	<u>107.604</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>5.009.702</u>	<u>9.745.021</u>

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Note	2016 €	2015 €
ASSETS			
Cash and balances with Central Bank of Cyprus	13	80.092.246	18.544.938
Deposits with other banks	14	43.087.230	112.319.004
Loans and advances to customers	15	662.176.710	704.007.910
Deposits with related banks	16(a)	16.596.106	6.287.218
Investments	18	99.375.689	88.532.505
Property, plant and equipment	19	10.419.533	10.509.754
Investment property	20	4.470.000	4.470.000
Intangible assets	21	5.044.638	5.158.929
Other assets	22	1.751.107	1.444.465
Total assets		<u>923.013.259</u>	<u>951.274.723</u>
LIABILITIES			
Deposits from other banks	23	9.683.707	2.793.571
Deposits and other customer accounts	24	571.082.877	614.776.911
Deposits from related banks	16(b)	139.445.311	139.471.363
Other liabilities	25	14.714.903	11.156.119
Total liabilities		<u>734.926.798</u>	<u>768.197.964</u>
EQUITY			
Share capital	26	51.300.000	51.300.000
Retained earnings		125.768.140	121.364.228
Revaluation reserves	27	11.018.321	10.412.531
Total equity		<u>188.086.461</u>	<u>183.076.759</u>
Total liabilities and equity		<u>923.013.259</u>	<u>951.274.723</u>

The consolidated financial statements have been approved by the Board of Directors on 30 May 2017.



Louka Katseli
Chairwoman



Nicolaos Th. Beis
Chief Executive Officer



Mark Klerides
Independent, Non-Executive Member

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Share capital €	Property revaluation reserve €	Revaluation reserve of available-for- sale investments €	Retained earnings €	Total €
Balance at 1 January 2015	51.300.000	7.717.728	2.587.199	111.726.811	173.331.738
Profit for the year	-	-	-	9.637.417	9.637.417
Other comprehensive (loss)/income for the year	-	(293.277)	400.881	-	107.604
Total comprehensive (loss)/income for the year	-	(293.277)	400.881	9.637.417	9.745.021
Balance at 31 December 2015	51.300.000	7.424.451	2.988.080	121.364.228	183.076.759
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	51.300.000	7.766.967	3.251.354	125.768.140	188.086.461

The notes on pages 12 to 64 form an integral part of the consolidated financial statements

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 €	2015 €
Net cash generated by/(used in) operating activities	29	15.432.133	(109.261.452)
Cash flows from investing activities			
Purchase of intangible assets		(329.542)	(771.971)
Purchase of property, plant and equipment		(235.432)	(277.495)
Net disposal/maturity of Cyprus government bonds and treasury bills		(10.579.910)	14.899.603
Proceeds from dividends		490.504	109.125
Interest on debt securities		1.748.255	2.276.001
Net cash (used in)/generated by investing activities		(8.906.125)	16.235.263
Net increase/(decrease) in cash and cash equivalents		6.526.008	(93.026.189)
Cash and cash equivalents at beginning of the year	30	127.352.540	220.378.729
Cash and cash equivalents at end of the year	30	133.878.548	127.352.540

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

1. GENERAL INFORMATION

National Bank of Greece (Cyprus) Limited (the “Company”) is a limited liability company incorporated under the Cyprus Companies Law. Its parent and ultimate holding company is National Bank of Greece S.A., a company incorporated in Greece. The principal activities of the Company and its subsidiary (the “Group”) 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 Group 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 2016. The adoption of these Standards did not have a material effect on the accounting policies of the Group.

Standard/ Interpretation	Effective for annual periods beginning on or after:
Amendments to IAS 19: Defined Benefit Plans: Employee Contribution	1 February 2015
Annual Improvements to IFRSs 2010-2012 Cycle	1 February 2015
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities - Applying the Consolidation Exception	1 January 2016

Up to the date of approval of these financial statements the following Standards, Amendments to Standards and Interpretations have been published by the International Accounting Standards Board but were not yet effective:

i) Adopted by the European Union

Standard/ Interpretation	Effective for annual periods beginning on or after:
IFRS 15 “Revenue from Contract with Customers”	1 January 2018
IFRS 9 “Financial Instruments”	1 January 2018

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

ii) Not yet adopted by the European Union

Standard/ Interpretation	Effective for annual periods beginning on or after:
IFRS 14 “Regulatory Deferral Accounts”	1 January 2016
IFRS 16 “Leases”	1 January 2019
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Clarification to IFRS 15 “Revenue from Contracts with Customers”	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2017/1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS40: Transfers of Investment Property	1 January 2018

The Group is in the process of evaluating the effect that the adoption of the above standards will have on the consolidated financial statements of the Group, and it does not intend to early adopt any of them. The Group expects that the most significant impact will result from the below new standards that have been issued but are not yet effective:

- **IFRS 9 “Financial Instruments”:**
IFRS 9 (as revised in 2014) will supersede IAS 39 ‘Financial Instruments: Recognition and Measurement’ in its entirety. The completed IFRS 9 contains the requirements for a) classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.
- **IFRS 15 “Revenue from Contracts with Customers”:**
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 includes far more prescriptive guidance to deal with for specific scenarios and requires extensive disclosures in the financial statements.
- **IFRS 16 “Leases”:**
IFRS 16 specifies how an IFRS reporter entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated 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.

Going concern principle

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

Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for land and buildings, investments 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 Group 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 consolidated 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.

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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Basis of consolidation (cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Foreign currencies

The consolidated financial statements are presented in Euro (€), which is the functional and presentation currency of the Company and its subsidiary. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the rate of exchange ruling at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. All differences arising on translation are recognized in the consolidated income statement.

Revenue

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

Interest income is recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Revenue (cont'd)

Income from leasing activities recognised in the statement of comprehensive income is calculated in a systematic manner on the basis of instalments falling due, in order to produce a constant periodic rate of return on the net investment outstanding.

Income from fees and commissions is recognised in the period of provision of the relevant services.

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

Interest payable

Interest payable on all interest bearing liabilities is recognised using the effective interest method.

Leasing

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.

The Group as lessee

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

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), 'held-to-maturity' investments, '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 a trade date basis. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Financial assets (cont'd)

Effective interest method (cont'd)

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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.

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 Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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 Group'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 profit or loss 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 Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

AFS financial assets

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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Financial assets (cont'd)

AFS financial assets (cont'd)

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group 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 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.

Dividends on AFS equity instruments are recognised in profit or loss when the Group'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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including 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, the estimated future cash flows of the investment have been affected.

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.

For all other financial assets classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Financial assets (cont'd)

Impairment of financial assets (cont'd)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income 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 is reversed 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.

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 Group 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.

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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Financial assets (cont'd)

Impairment of financial assets (cont'd)

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of 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.

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.

Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group 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 Group

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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

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

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 Group 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'.

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.

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 Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not 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 Group'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 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 profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, 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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

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

Financial guarantee contracts

The Group issues financial guarantees to its customers, consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised in the consolidated 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 Group'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.

Subordinated loan

Subordinated loan is initially measured at cost, being the fair value of the consideration received net of any issue costs. It is subsequently measured at amortised cost using the effective interest method.

Interest on subordinated loan is recognized as interest expense in the consolidated income statement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Repurchase agreements

Investments sold under agreements to repurchase at a specific future date ("repos") are not derecognised from the consolidated statement of financial position and are measured according to their classification. The proceeds from the sale of the investments are reported as liabilities to banks. 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 held for supply of services and administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties' revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Property, plant and equipment (cont'd)

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

Depreciation on revalued buildings is charged to profit or loss. 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 cost less accumulated depreciation and any accumulated impairment losses.

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 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.

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. 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.

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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Intangible assets (cont'd)

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Impairment of tangible and intangible assets (cont'd)

Recoverable amount is the higher of 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee retirement benefits

The Bank operates a defined contribution plan.

Under the agreement signed in March 2014, the Bank with effect from 1 January 2014 proceeded with a reduction of the monthly contribution to the provident fund from 14% to 12%. For the defined contribution plan, the Group has no further obligations of payment once contributions are paid. The contributions are recognised as cost of staff benefits when benefits are due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Taxation (cont'd)

Deferred tax (cont'd)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Special levy

In accordance to the "Special Levy on Credit Institutions Law of 2011 to 2015", credit institutions are subject to a special levy on qualifying deposits held by each credit institution.

As from 1 January 2014 the special levy tax is charged on the deposits at 31 December of the previous year at the rate of 0,15%.

As from 1 January 2015, the special levy tax is charged on the deposits as follows:

- On 31 March of every year, at the rate of 0,0375% on the deposits at 31 December of the previous year.
- On 30 June of every year, at the rate of 0,0375% on the deposits at 31 March of the same year.
- On 30 September of every year, at the rate of 0,0375% on the deposits at 30 June of the same year.
- On 31 December of every year, at the rate of 0,0375% on the deposits at 30 September of the same year.

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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Offsetting financial instruments

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

Provisions for pending litigation or claims

Provisions are recognized when the Group 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. Where the Group expects a provision to be reimbursed, partly or fully, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Cash and cash equivalents

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

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 JUDGEMENTS AND ESTIMATES

In the preparation of the consolidated financial statements the management of the Group 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.

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 Group reviews its loans and advances in order to assess whether a provision for impairment should be recorded in the consolidated income statement. Management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. This methodology is based on historical loss experience for assets with similar credit risk characteristics. In addition, the use of historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

Provisions for impairment of loans and advances (cont'd)

Accumulated impairment losses of the Group's loans and advances are inherently uncertain due to their sensitivity to economic and credit conditions of the environment in which the Group operates. It is possible that the actual conditions in the next financial year to differ significantly from the assumptions made during the current year, so that the carrying amount of loans and advances to be adjusted significantly.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market is determined using valuation models. These models require management to make estimates and assumptions. Changes in these estimates and assumptions could affect the reported fair value of the relevant financial instruments.

Impairment of available for sale investments

Available for sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost in such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgement by management.

Available for sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The identification of impairment requires judgement by management. An individual assessment for impairment is performed on bonds whose fair value at the balance sheet date has significantly decreased as well as the issuer has been downgraded.

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 Group 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 income tax and deferred tax provisions in the period in which such determination is made.

Fair value of properties held for own use and investment properties

The unprecedented economic conditions in Cyprus are also reflected in the real estate markets with a significant reduction in the volume of property transactions. Under these circumstances, the degree of uncertainty which exists is greater than in a more active market for determining the market values of property.

The properties held by the Group 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.

Provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims or regulatory matters require a higher degree of judgements than other types of provisions.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

5. INTEREST INCOME

	2016	2015
	€	€
Loans and advances to customers	32.550.189	41.942.988
Deposits with banks and central bank	40.313	501.486
Investments held-to-maturity	80.562	2.276.001
Investments classified as loans and receivables	1.667.693	-
	34.338.757	44.720.475

Interest income from loans and advances to customers includes interest on the net carrying amount of impaired loans and advances to customers amounting to €12.654.312 (2015: €15.908.232).

6. INTEREST EXPENSE

	2016	2015
	€	€
Deposits and other customer accounts	4.036.381	8.712.306
Deposits from banks	4.032.153	6.908.312
	8.068.534	15.620.618

7. FEE AND COMMISSION INCOME

	2016	2015
	€	€
Fees	1.409.770	1.430.559
Commissions	4.033.671	3.804.473
	5.443.441	5.235.032

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

	2016	2015
	€	€
Dividend income	490.504	109.125
Gain on revaluation of investment property	-	302.000
Other income	852.623	1.400.833
	1.343.127	1.811.958

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

10. STAFF COSTS

	2016	2015
	€	€
Salaries	10.812.608	10.681.539
Employer's contributions	1.036.566	999.912
Provident fund contributions	1.229.800	1.220.700
Other staff expenses	343.809	136.801
	13.422.783	13.038.952

The number of staff employed by the Group as of 31 December 2016 was 258 (2015: 265). The average number of staff employed by the Group for 2016 was 261 (2015: 269).

The bank operates a defined contribution plan.

Based on the agreement signed in June 2014, the Bank's contribution to the provident fund is 12%.

11. OTHER OPERATING EXPENSES

	2016	2015
	€	€
Occupancy costs	560.549	666.284
Rentals	770.899	858.639
Advertising and marketing	283.861	284.455
Repairs and maintenance	850.007	894.945
Administrative expenses	1.071.489	1.165.106
Other operating expenses	818.134	1.260.427
Special levy tax	920.009	1.099.315
	5.274.948	6.229.171

Other operating expenses include fees of €75.750 (2015: €75.750) paid to the independent auditors of the Group, Deloitte Ltd, for the audit of the consolidated financial statements of the Group.

12. TAX

Tax recognised in the income statement:

	2016	2015
	€	€
Corporation tax	741.454	1.291.454
Deferred tax	10.293	(66.973)
Withholding tax	303.890	196.206
	1.055.637	1.420.687

The Group is subject to corporation tax at the rate of 12.5% on its total taxable income.

Under current legislation, tax losses may be carried forward and be set off against taxable income of the five succeeding years.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

12. TAX (Cont'd)

The charge for the year can be reconciled to the accounting profit as follows:

	2016 €	2015 €
Profit before tax	5.459.549	11.058.104
Taxation based on applicable tax rates	682.444	1.382.263
Tax effect of:		
Disallowed expenses	121.146	201.547
Non taxable income	(62.136)	(292.356)
Deferred tax	10.293	(66.973)
Withholding tax	303.890	196.206
Taxation charge	1.055.637	1.420.687

13. CASH AND BALANCES WITH THE CENTRAL BANK OF CYPRUS

	2016 €	2015 €
Cash	13.341.932	6.814.405
Balances with the Central Bank of Cyprus:		
- due within three months	66.750.314	11.730.533
	80.092.246	18.544.938

Balances with Central Bank include obligatory deposits for liquidity purposes of an amount of €5.717.702 (2015: €8.329.145).

14. DEPOSITS WITH OTHER BANKS

	2016 €	2015 €
Interbank accounts	23.648.549	112.319.004
Money market placements	19.448.681	-
	43.087.230	112.319.004

The maturity of the above balances is presented below:

	2016 €	2015 €
Due within three months	42.897.398	112.319.004
Between three months and one year	189.832	-
	43.087.230	112.319.004

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

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

15. LOANS AND ADVANCES TO CUSTOMERS

	2016 €	2015 €
Loans and advances to customers	933.291.513	958.301.975
Hire purchase and leasing debtors	7.020.570	7.028.974
	940.312.083	965.330.949
Provisions for impairment of loans and advances (Note 17)	(278.135.373)	(261.323.039)
	662.176.710	704.007.910

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

	2016 €	2015 €
Due within three months	595.473.690	580.242.640
Between three months and one year	47.047.596	37.965.296
Between one and five years	100.817.870	115.916.961
Over five years	196.972.927	231.206.052
	940.312.083	965.330.949

The distribution of advances of the Group to the different sectors of the economy is presented below:

	2016 €	2015 €
Trade and services	343.031.603	362.154.580
Construction	226.696.505	226.171.693
Manufacturing	86.272.864	87.943.483
Tourism	37.964.607	38.450.680
Retail	163.321.109	170.399.959
Other	83.025.395	80.210.554
	940.312.083	965.330.949

Analysis by geographical area:

	2016 €	2015 €
Cyprus	760.473.970	770.125.514
Greece	127.523.070	137.415.510
Other countries	52.315.043	57.789.925
	940.312.083	965.330.949

The fair value of loans and other advances is approximately equal to the amount shown on the consolidated statement of financial position.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

16. BALANCES WITH RELATED BANKS

(a) Deposits with related banks

	2016 €	2015 €
National Bank of Greece S.A.	16.596.106	6.287.218
	<u>16.596.106</u>	<u>6.287.218</u>

The maturity of the above balances is presented below:

	2016 €	2015 €
Due within three months	16.596.106	6.287.218
	<u>16.596.106</u>	<u>6.287.218</u>

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

(b) Deposits from related banks

	2016 €	2015 €
National Bank of Greece S.A.	139.445.311	139.471.363
	<u>139.445.311</u>	<u>139.471.363</u>

The maturity of the above balances is presented below:

	2016 €	2015 €
Due within three months	139.445.311	139.471.363
	<u>139.445.311</u>	<u>139.471.363</u>

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

17. PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES

	Total €
Balance 1 January 2015	255.165.958
Provisions for the year	5.649.412
Write offs against provisions	(10.987.413)
Suspended income	11.495.082
	<u>261.323.039</u>
Balance 1 January 2016	261.323.039
Provisions for the year	8.797.975
Write offs against provisions	(807.471)
Suspended income	8.821.830
	<u>278.135.373</u>
Balance 31 December 2016	<u>278.135.373</u>

Amounts recognized in the income statement:

	2016 €	2015 €
Provision for impairment	8.797.975	5.649.412
	<u>8.797.975</u>	<u>5.649.412</u>

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

18. INVESTMENTS

	2016	2015
	€	€
Available-for-sale investments	4.295.341	4.032.067
Held-to-maturity investments	-	84.500.438
Investments classified as loans and receivables	95.080.348	-
	99.375.689	88.532.505

Available-for-sale investments

	2016	2015
	€	€
Listed equity securities	2.099.147	1.937.915
Unlisted equity securities	2.196.194	2.094.152
	4.295.341	4.032.067

Investments available for sale are as follows:

	2016	2015
	€	€
JCC Payment Systems Ltd	972.560	870.518
National Insurance (Cyprus) Limited	1.223.634	1.223.634
Master Card International Incorporated	2.087.016	1.925.272
Bank of Cyprus Public Company Ltd	12.131	12.643
	4.295.341	4.032.067

Held-to-maturity investments

	2016	2015
	€	€
Treasury bills	-	84.500.438
	-	84.500.438

The maturity of the above investments is presented below:

	2016	2015
	€	€
Within three months	-	84.500.438
	-	84.500.438

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

18. INVESTMENTS (Cont'd)

Investments classified as loans and receivables

	2016 €	2015 €
Cyprus government bonds and treasury bills	95.080.348	-

	2016 €	2015 €
Listed on the Cyprus Stock Exchange	95.080.348	-

The maturity of the above investments is presented below:

	2016 €	2015 €
Within three months	39.609.852	-
Between three months and one year	-	-
Between one and five years	35.325.843	-
Over 5 years	20.144.653	-
	<u>95.080.348</u>	<u>-</u>

19. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and installations €	Motor vehicles €	Furniture and equipment €	Total €
Cost or valuation				
1 January 2015	12.953.788	239.088	4.311.414	17.504.290
Additions	-	-	277.495	277.495
Write offs/disposals	(105.878)	-	(426.317)	(532.195)
Revaluation	(386.832)	-	-	(386.832)
31 December 2015/1 January 2016	<u>12.461.078</u>	<u>239.088</u>	<u>4.162.592</u>	<u>16.862.758</u>
Additions	1.375	17.000	217.057	235.432
Write offs/disposals	-	(51.429)	(17.693)	(69.122)
31 December 2016	<u>12.462.453</u>	<u>204.659</u>	<u>4.361.956</u>	<u>17.029.068</u>
Depreciation				
1 January 2015	2.524.302	236.133	3.830.804	6.591.239
Charge for the year	196.050	1.198	149.672	346.920
Write off/disposals	(75.438)	-	(416.162)	(491.600)
Adjustment on revaluation	(93.555)	-	-	(93.555)
31 December 2015/1 January 2016	<u>2.551.359</u>	<u>237.331</u>	<u>3.564.314</u>	<u>6.353.004</u>
Charge for the year	157.693	1.713	166.247	325.653
Write off/disposals	-	(51.429)	(17.693)	(69.122)
31 December 2016	<u>2.709.052</u>	<u>187.615</u>	<u>3.712.868</u>	<u>6.609.535</u>
Net book value				
31 December 2016	<u>9.753.401</u>	<u>17.044</u>	<u>649.088</u>	<u>10.419.533</u>
31 December 2015	<u>9.909.719</u>	<u>1.757</u>	<u>598.278</u>	<u>10.509.754</u>

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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

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

The Group'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 Group's land and buildings as at 31 December 2016 and 31 December 2015 were performed by independent valuers not related to the Group. 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.

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

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

	Level 2 2016 €	Fair value 2016 €
Land	6.252.500	6.252.500
Buildings	3.260.000	3.260.000
	9.512.500	9.512.500
	9.512.500	9.512.500
	Level 2 2015 €	Fair value 2015 €
Land	6.252.500	6.252.500
Buildings	3.260.000	3.260.000
	9.512.500	9.512.500
	9.512.500	9.512.500

20. INVESTMENT PROPERTY

	2016 €	2015 €
Balance at 1 January	4.470.000	4.168.000
Gain in fair value	-	302.000
	4.470.000	4.470.000
	4.470.000	4.470.000

The fair value measurement of the Group's investment property as at 31 December 2016 and 31 December 2015 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. 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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

20. INVESTMENT PROPERTY (Cont'd)

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

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

	Level 2 2016	Fair value 2016
	€	€
Land	2.150.000	2.150.000
Buildings	2.320.000	2.320.000
	4.470.000	4.470.000
	Level 2 2015	Fair value 2015
	€	€
Land	2.150.000	2.150.000
Buildings	2.320.000	2.320.000
	4.470.000	4.470.000

21. INTANGIBLE ASSETS

	Computer software	
	2016	2015
	€	€
Cost		
1 January	10.459.161	11.416.287
Additions	329.542	771.971
Write offs	-	(1.729.097)
31 December	10.788.703	10.459.161
Amortisation		
1 January	5.300.232	6.647.075
Charge for the year	443.833	382.254
Write offs	-	(1.729.097)
31 December	5.744.065	5.300.232
Net book value		
31 December	5.044.638	5.158.929

22. OTHER ASSETS

	2016	2015
	€	€
Prepaid expenses	279.758	370.340
Debtors and other receivables	1.392.951	1.004.398
Other assets	78.398	69.727
	1.751.107	1.444.465

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

23. DEPOSITS FROM OTHER BANKS

	2016 €	2015 €
Interbank borrowing	9.683.707	2.793.571

The maturity of the above balances is presented below:

	2016 €	2015 €
Due within three months	5.929.959	2.793.571
Due between one and five years	3.753.748	-
	9.683.707	2.793.571

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

24. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	2016 €	2013 €
Time and Notice accounts	385.625.444	421.280.437
Demand and current accounts	125.610.777	143.463.092
Savings accounts	59.846.656	50.033.382
	571.082.877	614.776.911

Analysis by geographical area

	2016 €	2015 €
Cyprus	414.055.344	467.477.363
Greece	106.874.517	102.655.469
Other countries	50.153.016	44.644.079
	571.082.877	614.776.911

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

The above mentioned balances maturity is presented below:

	2016 €	2015 €
Due within three months	447.336.711	409.053.107
Between three months and one year	123.746.166	205.723.804
	571.082.877	614.776.911

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

25. OTHER LIABILITIES

	2016 €	2015 €
Receipts on behalf of third parties	589.300	731.770
Provision for staff unpaid leave	77.400	350.060
Cheques - drafts payable	2.656.168	1.682.449
Fair value of derivatives	35.943	23.788
Other liabilities	9.624.646	6.304.384
Deferred tax	1.731.446	2.063.668
	<u>14.714.903</u>	<u>11.156.119</u>

Other liabilities include provisions for pending litigations or complaints and/or claims amounting to €1.765.206 (2015: €1.437.637).

26. SHARE CAPITAL

	2016		2015	
	Shares	€	Shares	€
Authorised:				
Ordinary shares of Euro 1,71 each	<u>30.000.000</u>	<u>51.300.000</u>	<u>30.000.000</u>	<u>51.300.000</u>
Issued and fully paid				
Ordinary shares of Euro 1,71 each	<u>30.000.000</u>	<u>51.300.000</u>	<u>30.000.000</u>	<u>51.300.000</u>

27. REVALUATION RESERVES

	Land and buildings €	Available- for-sale investments €	Total €
Balance 1 January 2015	7.717.728	2.587.199	10.304.927
(Loss)/gain from change in fair value	(293.277)	400.881	107.604
Balance 31 December 2015	<u>7.424.451</u>	<u>2.988.080</u>	<u>10.412.531</u>
Gain from change in fair value	-	263.274	263.274
Deferred taxation on revaluation	342.516	-	342.516
Balance 31 December 2016	<u>7.766.967</u>	<u>3.251.354</u>	<u>11.018.321</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

28. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2016	2015
	€	€
Acceptances and Endorsements	10.334.730	15.872.611
Letters of Guarantee	25.799.161	24.158.981
Letters of Credit	7.723.968	15.757.120
Customers' credit limits that have been approved but have not been used	93.627.806	107.518.068
	<u>137.485.665</u>	<u>163.306.780</u>

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

Pending litigations and claims

As at 31 December 2016 there were pending litigations against the Group 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 probable that the Group will suffer any significant damage.

29. NET CASH USED IN OPERATING ACTIVITIES

	2016	2015
	€	€
Profit before taxation	5.459.549	11.058.104
Depreciation of property, plant and equipment	325.653	346.918
Amortisation of intangible assets	443.834	382.254
Provision for unused vacation	(272.660)	(142.746)
Provision for impairment of loans and advances	8.797.975	5.649.412
Loss on disposal of property, plant and equipment	-	40.595
Profit from derivative financial instruments	35.367	9.237
Gain on revaluation of investment property	-	(302.000)
Dividend income	(490.504)	(109.125)
Interest on debt securities	(1.748.255)	(2.276.001)
	<u>12.550.959</u>	<u>14.656.648</u>
Decrease in loans and other advances	33.033.225	599.250.755
Decrease in deposits and other customer accounts	(43.694.034)	(174.357.109)
Increase/(decrease) in deposits with other banks	1.279.643	(1.457.523)
Decrease in obligatory balances with Central Bank of Cyprus	2.621.943	11.405.222
Increase in deposits from other banks	6.890.136	902.596
Decrease in deposits with related banks	-	69.043.861
Decrease in deposits from related banks	(26.052)	(621.682.572)
Increase in other assets	(329.856)	(256.786)
Increase/(decrease) in other liabilities	4.151.513	(5.278.884)
	<u>16.477.477</u>	<u>(107.773.792)</u>
Net cash generated by/(used in) operations	16.477.477	(107.773.792)
Tax paid	(1.045.344)	(1.487.660)
	<u>15.432.133</u>	<u>(109.261.452)</u>
Net cash generated by/(used in) operating activities (Page 11)	15.432.133	(109.261.452)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

30. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents

	2016	2015
	€	€
Cash (Note 13)	13.341.932	6.814.405
Non-obligatory balances with Central Bank of Cyprus	61.043.112	3.401.388
Deposits with related banks - due within three months	16.596.106	6.287.218
Deposits with other banks - due within three months	42.897.398	110.849.529
	133.878.548	127.352.540

For the purpose of preparing the consolidated 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 cash flows.

31. RELATED PARTY TRANSACTIONS

The parent and ultimate holding company of the Group is National Bank of Greece S.A., a company registered in Greece, who produces 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.

Transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

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

	Interest & other income		Interest & other expense	
	2016	2015	2016	2015
	€	€	€	€
National Bank of Greece S.A.	152.177	627.680	4.392.462	6.945.450
Subsidiaries of National Bank of Greece S.A.	1.331.170	4.376.277	813.419	874.380
	1.331.170	4.376.277	813.419	874.380

Balances with related companies

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

	2016	2015
	€	€
Deposits and other customer accounts		
National Securities S.A.	335.557	1.449.188
NBG Management Services Limited	4.322.810	2.869.795
National Insurance (Cyprus) Limited	3.853.485	3.354.858
National General Insurance (Cyprus) Ltd	4.172.344	3.629.829
	12.684.196	11.303.670

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

31. RELATED PARTY TRANSACTIONS (Cont'd)

Balances with related companies (Cont'd)

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

	2016	2015
	€	€
Loans and other advances		
Astir Palace Vouliagmenis S.A.	77.909	116.992
NBG Leasing IFN S.A.	26.303.105	29.303.459
	26.381.014	29.420.451

Deposits with and from related banks are presented in note 16 to the consolidated 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 2017. 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 2016 and 2015, the Group 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:

	2016	2015
	€	€
Loans and advances to customers	136.225.703	135.999.612
	136.225.703	135.999.612

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

Key management personnel

	2016	2015
	€	€
Loans and advances to members of the Board of Directors and connected persons	1.469	4.121
	1.469	4.121
Deposits of members of the Board of Directors and connected persons	314.117	323.193
	314.117	323.193
Interest expense	1.139	18.401
	1.139	18.401

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 Group's employees.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

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Year ended 31 December 2016

31. RELATED PARTY TRANSACTIONS (Cont'd)

Key management personnel (Cont'd)

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

	2016 €	2015 €
Fees paid to Directors as members of the Board	24.983	12.600
Executive Directors emoluments		
Salaries and other short-term benefits	424.915	345.559
Employer's contributions	3.708	4.947
	428.623	350.506
Total compensation	453.606	363.106

32. SUBSIDIARY COMPANY

Details of the Company's subsidiary are as follows:

Name	Country of incorporation	% Participation	
		2016	2015
National Securities Cyprus Ltd	Cyprus	100	100

33. OPERATING ENVIRONMENT OF THE GROUP

After almost four years of contraction, the Cyprus economy returned to positive growth rates in 2016.

The commitment regarding the implementation of the Economic Adjustment Programme has been the cornerstone for the return to economic growth. The better than expected economic performance, combined with the progress made in the restructuring of the banking sector, allowed the Cypriot authorities to complete the programme ahead of schedule without a precautionary post-programme credit line.

In early March 2016 the Eurogroup, has issued a statement, where it supports the Cypriot government's decision to exit its macroeconomic adjustment programme without a successor arrangement. Additionally, the International Monetary Fund accepted Cyprus's decision to end its bailout program in March 2016. As a result of the above, and the minimum credit rating requirement of the ECB's quantitative easing programme the Cyprus Bonds will qualify for the programme when Cyprus returns to investment grade.

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, relatively high unemployment rates and the implementation of the privatization initiatives and public sector reforms.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

33. OPERATING ENVIRONMENT OF THE GROUP (Cont'd)

The Cyprus banking sector has gone through a reformation phase and is now in a strengthened capital and liquidity position. Foreign exposures have been eliminated and domestic operations form the main focus. While decisive steps were taken and swift progress has been achieved throughout the banking sector, the high share of non-performing exposures is impacting both on the banks' balance sheets as well as on their ability to extend credit to the economy.

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 Group 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 Group 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 17.

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.).

The parent company of the Group, National Bank of Greece S.A. with headquarters and significant operations in Greece is facing a challenging economic and financial environment. In the first half of 2015 as a result of prolonged negotiations of the new Greek government with its European partners towards reaching a permanent agreement of the financial needs of the Hellenic Republic, the increased uncertainty on the economic environment and banking system has led a significant deposit outflow from the Greek banks.

As part of response to the substantial contraction of the deposit base, the Greek government imposed number of restrictions in banking transactions (capital controls) many of which continue as of today. Further, the Greek government requested official financial aid from the European Union on 15 July 2015 with a view to restore confidence and enable the return of the economy to substantial growth. In 19 August 2015, the Greek Government agreed a new (third) financial assistance program, on a 3-year European Stability Mechanism (ESM program) worth up to €86 bil fresh loans, with a series of reforms to take place.

On 20 August 2015 the first tranche of €13 bil of the new program was received, out of which €10bil have been made available for bank recapitalization needs. Following the completion of two additional sets of prior actions (in November – December 2015) the Greek Government received additional €3 bil relating to the first program. The review of the Greek's reform program by international lenders is ongoing.

The above developments resulted in the upgrade of the Greek sovereign debt by main rating agencies on July 2015 and further in January 2016.

Also 2015 saw the successful recapitalization of the National Bank of Greece S.A and the other systemic Greek banks as a response to the capital shortfalls identified by ECB during the Comprehensive assessment (asset quality review and stress tests) performed in the third quarter of 2015, in accordance to which the systemic Greek banks had a capital shortfall of €14,4 bil.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

33. OPERATING ENVIRONMENT OF THE GROUP (Cont'd)

The parent shortfall needs under the baseline scenario was only €1,4 bil (and €4,4 bil, under Adverse scenario). The National Bank of Greece S.A has been fully recapitalised by year end 2015 through the issue of new share capital (Greek and International Offering), through Liability management exercise and subscription by the HFSF.

The successful recapitalization and upgrades of sovereign debt by the international rating agencies has helped the Group to enhance its liquidity position and reduce its dependence from the Eurosystem funding. at 31 December 2015 the CET 1 ratio increased to 14,6%. The banking sector stabilized its deposits following the imposition of capital controls and normalization of government spending.

The Greek economy has proven resilience in 2015 to a combination of several adverse factors (increased prolonged negotiations with lenders, intensifying liquidity squeeze of the public and private, Grexit scenarios, imposition of capital controls) and in this very challenging environment the economic activity extended by 0,6% in the first half of 2015 and contracted by -1,2% in the second half with full year contraction of only -0,3%.

The external balances have been improved with the current account heading to a broadly balance position by end of 2015 while tourism activity remains solid with arrivals increasing by 7,1% in 2015. However the uncertainty in the economy and the banking system remains in year 2016 and the economic activity in Greece will continue to be affected by downside pressures related to the additional fiscal measures and negative carry on growth from GDP trends of 2015.

34. RISK MANAGEMENT

Like any other financial institution, the Group is exposed to risks. The nature of the risks and the ways they are dealt with are explained below:

a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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 Group's exposure and the credit ratings of its counterparties are continuously 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 annually.

The loan portfolio is assessed on the basis of customer creditworthiness, sector of the economy and country of operation and is regularly audited by the Internal Audit department. The Group'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 Group 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.

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Year ended 31 December 2016

34. RISK MANAGEMENT

a) Credit risk (cont'd)

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

The table below shows the maximum exposure to credit risk, the tangible and measurable collateral and other credit enhancements held and the net exposure to credit risk. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

	Maximum exposure to credit risk €	Fair value of collateral and credit enhancements held by the Company					Net collateral €	Net exposure to credit risk €
		Cash €	Securities €	Property €	Other €			
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	85.871.038	
Debt securities classified as loans and receivables	95.080.348	-	-	-	-	-	95.080.348	
Available-for-sale investments	4.295.341	-	-	-	-	-	4.295.341	
Other assets	1.751.107	-	-	-	-	-	1.751.107	
On-balance sheet total	886.991.136	152.211.984	180.182	404.330.631	19,582.873	576.305.671	310.685.464	
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	1.024.476.801							

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Year ended 31 December 2016

34. RISK MANAGEMENT

a) Credit risk (cont'd)

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

2015	Maximum exposure to credit risk €	Fair value of collateral and credit enhancements held by the Company					Net collateral €	Net exposure to credit risk €
		Cash €	Securities €	Property €	Other €			
Balances with Central Bank of Cyprus	8.329.146	-	-	-	-	-	8.329.146	
Deposits with banks	118.606.222	-	-	-	-	-	118.606.222	
Loans and other advances	704.007.910	156.494.920	107.557	390.532.767	2.973.125	550.108.369	153.899.541	
Debt securities classified as held-to-maturity	84.500.438	-	-	-	-	-	84.500.438	
Available-for-sale investments	4.032.067	-	-	-	-	-	4.032.067	
Other assets	1.444.465	-	-	-	-	-	1.444.465	
On-balance sheet total	920.920.248	156.494.920	107.557	390.532.767	2.973.125	550.108.369	370.811.879	
Contingent liabilities and commitments								
Acceptances and endorsements	15.872.611							
Letters of guarantee	24.158.981							
Letters of credit	15.757.120							
Undrawn credit lines and other commitments to lend	107.518.068							
Off-balance sheet total	163.306.780							
Total credit risk exposure	1.084.227.028							

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. 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:

Past due loans

A loan is not past due when the customer has not missed a contractual payment (interest or capital) when contractually due. Past due loan are those with delayed payments or in excess of authorised credit limits.

Impaired loans

Impaired loans are those loans 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.

	2016	2015
	€	€
Neither past due nor impaired	330.627.406	320.490.180
Past due but not impaired	65.385.400	75.005.740
Impaired	544.299.277	569.835.029
	940.312.083	965.330.949
	940.312.083	965.330.949

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 Group using internal systems.

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

	2016	2015
	€	€
Past due up to 30 days	41.172.496	52.702.008
Past due 31 - 60 days	3.152.521	3.712.355
Past due 61 - 90 days	1.542.794	3.856.403
Past due over 90 days	19.517.589	14.734.974
	65.385.400	75.005.740
	65.385.400	75.005.740

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 Group holds for loans and other advances to customers that are past due but not impaired as at 31 December 2016 amounts to €54.990.302 (2015: €63.788.750).

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

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Impaired loans and other advances

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

	2016 €	2015 €
Trade and services	163.358.170	191.707.928
Construction	144.451.950	145.709.286
Manufacturing	46.081.650	44.252.702
Tourism	19.627.884	19.301.824
Retail	117.858.488	116.634.070
Other	52.921.135	52.229.219
	<u>544.299.277</u>	<u>569.835.029</u>

Analysis by geographical area:

	2016 €	2015 €
Cyprus	496.219.908	492.327.466
Other countries	48.079.369	77.507.563
	<u>544.299.277</u>	<u>569.835.029</u>

The fair value of collateral that the Group holds for impaired loans as at 31 December 2016 amounts to €302.361.855 (2015: €285.122.349).

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

Forborne exposures

The credit tools commonly used by the Group to manage liquidity problems faced by its clients in the repayment of their debts is the restructuring of their finances by renegotiating the original 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 (i) exposures which involve changes in their terms and/or conditions and (ii) the forbearance measures consist of concessions towards a debtor which aim to address existing or anticipated difficulties on the part of the borrower 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.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

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 taken by the Group for the proper assessment of the new repayment schedule on the basis of the forbearance measures, in order to avoid a new default.

The below tables present the Group's forbore 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 €
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
	<u>157.447.976</u>	<u>152.052.418</u>	<u>5.395.558</u>
	Maximum exposure to credit risk €	Fair value of collateral €	Net exposure to credit risk €
2015			
Neither past due nor impaired	36.051.555	32.769.458	3.282.097
Past due but not impaired	7.242.110	7.231.064	11.046
Impaired	124.441.503	90.596.198	33.845.305
	<u>167.735.168</u>	<u>130.596.720</u>	<u>37.138.448</u>

According to the Central Bank of Cyprus directive on Loan Impairment and Provisions Practices (February 2014), the credit institutions are obliged to announce Tables A and B as presented below.

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Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Analysis of loan portfolio from banking services according to transaction 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
Loans and advances*				
General governments	1.201.162	-	21.082	-
Other financial corporations	75.773.725	26.886.329	9.698.908	6.339
Non-financial corporations	626.637.209	105.016.418	163.628.386	3.576.078
Of which: Small and Medium-sized Enterprises	581.945.281	105.016.327	161.531.828	3.576.078
Of which: Commercial real estate	95.505.790	11.731.211	29.126.231	885.237
By sector				
1. G Wholesale & Retail Trade	221.850.331		69.470.465	
2. F Construction	146.919.861		31.074.741	
3. C Manufacturing	81.215.331		25.362.126	
4. L Real Estate Activities	74.833.801		14.896.316	
5. I Accommodation & Food Services Activities	30.432.860		4.287.269	
Other sectors	71.385.025		18.537.469	
Households	236.699.987	25.545.228	104.786.997	1.679.318
Of which: Residential mortgage loans	68.645.835	16.337.061	15.208.813	288.480
Of which: Credit for consumption	53.483.340	3.289.150	26.404.692	1.119.558

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

**As per EBA definition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Analysis of loan portfolio from banking services according to transaction performance status as at 31 December 2015

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
Loans and advances*				
General governments	1,509,504	-	-	-
Other financial corporations	89,039,970	31,830,013	9,571,819	46,225
Non-financial corporations	623,762,589	110,984,965	145,488,548	3,723,688
Of which: Small and Medium-sized Enterprises	590,350,283	110,984,965	143,614,177	3,723,688
Of which: Commercial real estate	91,660,148	16,402,935	26,071,372	1,519,794
By sector				
1. G Wholesale & Retail Trade	220,543,129			
2. F Construction	146,414,973			
3. C Manufacturing	82,819,043			
4. L Real Estate Activities	74,854,917			
5. I Accommodation & Food Services Activities	31,012,490			
Other sectors	68,118,037			
Households	251,018,886	24,920,189	98,543,358	1,962,152
Of which: Residential mortgage loans	68,599,228	14,727,795	15,105,905	341,556
Of which: Credit for consumption	56,297,815	3,317,457	24,519,810	1,255,715
			18,399	
			10,706,386	
			150,233,277	
			147,517,071	
			26,875,585	
			64,267,168	
			27,934,235	
			24,788,428	
			13,409,301	
			3,548,313	
			16,285,831	
			100,364,977	
			15,478,507	
			25,487,956	

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

**As per EBA definition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Loans and advances to customers (excl. general governments) analysed on the basis of their origination date as at 31 December 2016

Table B

Loan origination date*	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	
Within 1 year	53,234,309	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	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	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	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	40,900,298	14,738,390	2,514,798	6,511	6,511	2,495	14,974,987	3,127,483	1,332,431	
7 - 10 years	157,862,218	100,762,656	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	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	626,637,209	366,657,203	159,614,192	75,773,725	36,904,812	9,646,122	236,699,987	185,157,830	103,468,873	

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

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Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

i) Credit risk (cont'd)

Loans and advances to customers (excl. general governments) analysed on the basis of their origination date as at 31 December 2015

Table B

Loan origination date*	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
Within 1 year	175.613.117	3.782.207	88.941.071	1.624.564	76.008.277	1.060.053	10.663.769	1.097.588
1 - 2 years	74.253.764	2.189.147	49.799.247	1.156.768	2.759	393	24.451.758	1.031.986
2 - 3 years	61.187.217	2.572.341	52.143.309	1.074.612	146	20	9.043.762	1.497.709
3 - 5 years	43.591.829	5.137.164	28.689.531	2.988.185	557	81	14.901.741	2.148.900
5 - 7 years	141.258.679	22.981.104	106.367.433	16.026.302	2.634.769	131.017	32.256.477	6.823.785
7 - 10 years	134.156.720	43.144.334	75.668.955	24.300.299	146.233	25.636	58.341.532	18.818.399
More than 10 years	333.760.119	181.498.343	222.153.043	103.062.547	10.247.229	9.489.186	101.359.847	68.946.610
	963.821.445	261.304.640	623.762.589	150.233.277	89.039.970	10.706.386	251.018.886	100.364.977

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

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34. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Credit quality of the Group'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 by Moody's rating as follows:

	2016	2015
	€	€
Aaa - Aa3	14.104.429	15.787.952
A1 - A3	9.187.737	82.794.168
Baa1 - Baa3	19.670.548	12.359.278
B1 - B3	66.750.314	9.614.819
Caa1 - Caa3	16.596.109	6.287.218
Unrated	124.513	3.493.320
	126.433.650	130.336.755

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

	2016	2015
	€	€
B1 (2015: B1)	95.080.348	84.500.438
	2016	2015
	€	€
Issued by:		
Cyprus government	95.080.348	84.500.438
	95.080.348	84.500.438
Classified as:		
Held-to-maturity investments	-	84.500.438
Loans and receivables	95.080.348	-
	95.080.348	84.500.438

The Group's deposits and securities are neither past due nor impaired.

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34. RISK MANAGEMENT (Cont'd)

b) Liquidity risk

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

Group 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 Group's short, medium and long-term funding and liquidity requirements, in order to also ensure compliance with the limits set by the Central Bank of Cyprus.

Analysis of financial assets and financial liabilities by remaining contractual maturity

The following liquidity tables analyse the financial assets and financial liabilities of the Group 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 Group and to the Central Bank of Cyprus, as this presentation is considered to be the most appropriate presentation of the Group'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 consolidated 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 Group after giving relevant notice to the customers. Thus, the unutilised credit facilities are included within the first maturity time band.

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Year ended 31 December 2016

34. 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 €
2016						
Financial assets						
Cash and balances with Central Bank of Cyprus	80.092.246	-	-	-	-	80.092.246
Deposits with banks	59.683.336	-	-	-	-	59.683.336
Loans and advances to customers	322.087.450	1.653.087	45.344.064	98.612.705	194.479.404	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	-	-	1.751.107	-	-	1.751.107
	<u>461.863.032</u>	<u>41.262.939</u>	<u>47.095.171</u>	<u>133.938.548</u>	<u>218.919.396</u>	<u>903.079.088</u>
Financial liabilities						
Deposits from banks	127.199.472	18.565.233	-	3.753.748	-	149.518.453
Deposits and other customer accounts	357.349.067	90.118.576	124.185.333	-	-	571.652.976
Other liabilities	6.235.113	339.507	4.332.400	3.806.688	-	14.713.708
	<u>490.783.652</u>	<u>109.023.316</u>	<u>128.517.733</u>	<u>7.560.436</u>	<u>-</u>	<u>735.885.137</u>
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	-	-	7.723.968
Amount of unutilised credit facilities	93.627.806	-	-	-	-	93.627.806
	<u>102.562.007</u>	<u>11.064.404</u>	<u>13.769.014</u>	<u>8.332.612</u>	<u>1.757.628</u>	<u>137.485.665</u>
	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
2015						
Financial assets						
Cash and balances with Central Bank of Cyprus	18.544.938	-	-	-	-	18.544.938
Deposits with banks	118.606.222	-	-	-	-	118.606.222
Loans and other advances	327.467.955	1.840.182	37.771.792	112.173.546	224.754.435	704.007.910
Available-for-sale investments	-	-	-	-	4.032.067	4.032.067
Held-to-maturity investments	84.500.438	-	-	-	-	84.500.438
Other assets	-	-	1.444.465	-	-	1,444,465
	<u>549.119.553</u>	<u>1.840.182</u>	<u>39.216.257</u>	<u>112.173.546</u>	<u>228.786.502</u>	<u>931.136.040</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. 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	142.542.480	-	-	-	-	142.542.480
Deposits and other customer accounts	281.914.589	127.503.732	207.077.774	-	-	616.496.095
Other liabilities	1.395.045	3.678.644	4.612.133	1.470.297	-	11.156.119
	<u>425.852.114</u>	<u>131.182.376</u>	<u>211.689.907</u>	<u>1.470.297</u>	<u>-</u>	<u>770.194.694</u>
Off-balance sheet items						
Acceptances and endorsements	3.444.302	11.455.606	972.703	-	-	15.872.611
Letters of guarantee	2.180.822	3.651.384	6.962.578	8.368.861	2.995.336	24.158.981
Letters of credit	307.436	11.810.701	3.638.983	-	-	15.757.120
Amount of unutilised credit facilities	107.518.068	-	-	-	-	107.518.068
	<u>113.450.628</u>	<u>26.917.691</u>	<u>11.574.264</u>	<u>8.368.861</u>	<u>2.995.336</u>	<u>163.306.780</u>

c) Market risk

Market risk is the risk of loss from adverse changes in market prices. The Group is exposed primarily to the financial risks of 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 Group 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.

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Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

c) Market risk (cont'd)

Interest rate risk (cont'd)

Sensitivity analysis

The table below indicates the effect on the Group's net profit and equity, if interest rates of the main currencies have been 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.

	Euro	USD	British	Other	Total
Change in interest rates	€'000	Dollars	Pound	currencies	€'000
		€'000	€'000	€'000	
2016					
+50 b.p. in all currencies	<u>37</u>	<u>(138)</u>	<u>(42)</u>	<u>(15)</u>	<u>(158)</u>
2015					
+50 b.p. in all currencies	<u>1.248</u>	<u>(173)</u>	<u>(50)</u>	<u>(13)</u>	<u>1.012</u>

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 Group 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 Group'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.

Currency	Open position	Change in	Impact on
	€'000	exchange rate	net profit/
		%	equity
			€'000
2016			
US Dollar	158	+5	8
British Pound	(1.032)	+5	(52)
Other currencies	1.798	+5	90
2015			
US Dollar	(736)	+5	(37)
British Pound	(108)	+5	(5)
Other currencies	1.007	+5	50

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Year ended 31 December 2016

34. 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 Group manages operational risk through its Risk Management Unit where processes are documented and transactions are monitored. Furthermore, this is supported by the reviews undertaken by the Internal Audit division.

e) Regulatory risk

The operations of the Group are supervised by the Central Bank of Cyprus. All Banks in Cyprus have to comply with the requirements of both the European Union and Cyprus legislation, as well as with the regulatory framework of the Central Bank of Cyprus. 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 Group.

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 Group 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 active liquid markets are determined with reference to quoted market prices. The 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.

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Year ended 31 December 2016

34. RISK MANAGEMENT (Cont'd)

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

The following table provides an analysis of 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	Level 2	Level 3	Total
	€	€	€	€
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	<u>2.099.147</u>	<u>14.565</u>	<u>2.196.194</u>	<u>4.309.906</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	-	35.943	-	35.943
Total	<u>-</u>	<u>35.943</u>	<u>-</u>	<u>35.943</u>
2015				
Financial assets at FVTPL				
Derivative financial assets	-	37.776	-	37.776
Available-for-sale investments				
Equities	1.937.915	-	2.094.152	4.032.067
Total	<u>1.937.915</u>	<u>37.776</u>	<u>2.094.152</u>	<u>4.069.843</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	-	23.788	-	23.788
Total	<u>-</u>	<u>23.788</u>	<u>-</u>	<u>23.788</u>

During 2016 and 2015 there were no transfers from Level 1 and Level 2.

Reconciliation of Level 3 fair value measurements

	Available-for-sale unlisted shares	
	2016	2015
	€	€
Balance of 1 January	2.094.152	2.094.152
Total gains/(losses) in other comprehensive income	102.042	-
Balance of 31 December	<u>2.196.194</u>	<u>2.094.152</u>

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. 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.

2016	Level 1 €	Level 2 €	Level 3 €	Fair value for disclosure purposes €	Carrying amount €
Financial assets measured at amortised cost					
Loans and advance 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 cost					
Deposits and other customer accounts	-	571.082.877	-	571.082.877	571.082.877
Deposits from banks	-	149.129.018	-	149.129.018	149.129.018
2015	Level 1 €	Level 2 €	Level 3 €	Fair value for disclosure purposes €	Carrying amount €
Financial assets measured at amortised cost					
Loans and advance to customers	-	-	704.007.910	704.007.910	704.007.910
Deposits with banks	-	118.606.222	-	118.606.222	118.606.222
Held-to-maturity investments	-	84.500.438	-	84.500.438	84.500.438
Financial liabilities measured at amortised cost					
Deposits and other customer accounts	-	614.776.911	-	614.776.911	614.776.911
Deposits from banks	-	142.264.934	-	142.264.934	142.264.934

35. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group complies with externally imposed capital requirements and that the Group maintains good capital ratios in order to support its business and to maximise shareholders' value.

The capital adequacy regulations which govern the Group's operations are established by the Central Bank of Cyprus.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

35. CAPITAL MANAGEMENT (Cont'd)

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 Central Bank of Cyprus has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and, on 29 May 2014, set the minimum Common Equity Tier 1 capital ratio at 8%. The CBC imposes additional capital requirements (Pillar 2 additions), for risks which are not covered by the above-mentioned capital requirements, taking also into account the provisions of the Directive (CRD IV) and of the Regulation (CRR).

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

	2016 €'000	2015 €'000
Common Equity Tier 1 (CET1)	183.042	177.919
Additional Tier 1 Capital (AT1)	-	-
Tier 2 Capital (T2)	-	-
Regulatory Capital	183.042	177.919
Risk weighted assets - credit risk	599.199	636.908
Risk weighted assets - market risk	2.250	1.250
Risk weighted assets - operational risk	71.463	76.625
Total risk weighted assets	672.912	714.783
	2016 %	2015 %
Common Equity Tier 1 (CET1) ratio	27,20	24,89
Tier 1 ratio	27,20	24,89
Total capital ratio	27,20	24,89

36. EVENTS AFTER THE REPORTING PERIOD

On 8 March 2017, the Bank's entire portfolio of Greek Syndicated loans amounting of €125.825.703 have been transferred to other subsidiary of the parent company at no gain, no loss. Consequently, deposits from the parent company of the same amount were settled.

