NATIONAL BANK OF GREECE (CYPRUS) LIMITED

Report and Consolidated Financial Statements
Year ended 31 December 2015

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

C O N T E N T S

OFFICERS AND PROFESSIONAL ADVISERS

Board of Directors	Louka Katseli, Non-Excecutive Member, Chairwoman (appointed on 30 November 2015) Pavlos Mylonas, Non-Executive Member, Vice Chairman Marinos 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 31.12.2015:	Louka Katseli, Non-Executive Member, Chairwoman Pavlos Mylonas, Non-Executive Member, Vice Chairman Marinos 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

REPORT OF THE BOARD OF DIRECTORS
YEAR ENDED 31 DECEMBER 2015

The Board of Directors presents its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

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.

RESULTS

As presented on page 6 of the consolidated financial statements, the profit of the Group after taxation amounted to €9.637.417 (2014: profit of €6.503.047).

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period.

EXPECTED FUTURE DEVELOPMENTS OF THE GROUP

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

EXISTENCE OF ANY GROUP BRANCHES

The Bank operates in Cyprus through 13 Branches (9 Retail, 2 IBUs, 1 Satellite branch and 1 Special Credit Unit). The Company has also established a Representative Office in Moscow, Russia.

Besides the above mentioned Network, National Bank of Greece S.A., maintains 1 Branch, in order to facilitate large Corporate Financing in the territory.

REVIEW OF THE DEVELOPMENT, FINANCIAL PERFORMANCE AND CURRENT POSITION OF THE GROUP AND DESCRIPTION OF ITS MAJOR RISKS AND UNCERTAINTIES

The Group's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory. Like any other financial institution, the Group is exposed to risks. The Group monitors and manages these risks through various control mechanisms. Details relating to Group risk management are presented in Note 34 of the consolidated financial statements.

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2015.

REPORT OF THE BOARD OF DIRECTORS (Cont'd)
YEAR ENDED 31 DECEMBER 2015

SHARE CAPITAL

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

BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2015 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 reappoint Deloitte Limited as auditors for the ensuing year.

By order of the Board of Directors

Louka Katseli
Chairwoman

Nicosia, 30 June 2016

Independent auditor's report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Bank of Greece (Cyprus) Limited (the "Company") and its subsidiary (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility 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 (EU) 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap 113.

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Independent auditor's report (Cont'd)

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

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, 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 information given in the report of the Board of Directors is consistent with the consolidated financial statements.

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 and 2013 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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Andreas Georgiou
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 June 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 €	2014 €
Interest income	**5**	44.720.475	76.228.272
Interest expense	**6**	(15.620.618)	(36.920.785)
Net interest income		29.099.857	39.307.487
Fee and commission income	**7**	5.235.032	5.407.054
Net foreign exchange gain/(loss)	**8**	557.964	(308.747)
Other income	**9**	1.811.958	939.367
		36.704.811	45.345.161
Staff costs	**10**	(13.038.952)	(14.227.103)
Depreciation of property, plant and equipment		(346.918)	(729.165)
Amortisation of intangible assets		(382.254)	(397.398)
Other operating expenses	**11**	(6.229.171)	(5.635.987)
		(19.997.295)	(20.989.653)
Profit before impairment of loans and advances to customers		16.707.516	24.355.508
Provision for impairment of loans and advances to customers	**17**	(5.649.412)	(13.961.813)
Profit before tax		11.058.104	10.393.695
Tax	**12**	(1.420.687)	(3.890.648)
PROFIT FOR THE YEAR		9.637.417	6.503.047
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Loss on revaluation of properties		(293.277)	(613.650)
Items that may be reclassified subsequently to profit or loss			
Gain on revaluation of available-for-sale investments		400.881	305.950
Other comprehensive income/(loss) for the year, net of tax		107.604	(307.700)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9.745.021	6.195.347

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2015

	Note	2015 €	2014 €
ASSETS			
Cash and balances with Central Bank of Cyprus	**13**	18.544.938	30.806.933
Deposits with other banks	**14**	112.319.004	89.771.375
Loans and other advances to customers	**15**	704.007.910	1.308.908.077
Deposits with related banks	**16(a)**	6.287.218	188.590.600
Available-for-sale investments	**18(a)**	4.032.067	3.631.273
Held-to-maturity investments	**18(b)**	84.500.438	99.400.041
Property, plant and equipment	**19**	10.509.754	10.913.051
Investment property	**20**	4.470.000	4.168.000
Intangible assets	**21**	5.158.929	4.769.212
Other assets	**22**	1.444.465	1.188.572
Total assets		951.274.723	1.742.147.134
LIABILITIES			
Deposits from other banks	**23**	2.793.571	1.890.972
Deposits and other customer accounts	**24**	614.776.911	789.133.820
Deposits from related banks	**16(b)**	139.471.363	761.153.935
Other liabilities	**25**	11.156.119	16.636.669
Total liabilities		768.197.964	1.568.815.396
EQUITY			
Share capital	**26**	51.300.000	51.300.000
Retained earnings		121.364.228	111.726.811
Revaluation reserve	**27**	10.412.531	10.304.927
Total equity		183.076.759	173.331.738
Total liabilities and equity		951.274.723	1.742.147.134

The consolidated financial statements have been approved by the Board of Directors on 30 June 2016.

Louka Katseli	Nicolaos Th. Beis
Chairwoman	Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share capital €	Property revaluation reserve €	Revaluation reserve of available-for-sale investments €	Retained earnings €	Total €
Balance at 1 January 2014	51.300.000	8.331.378	2.281.249	105.223.764	167.136.391
Profit for the year	-	-	-	6.503.047	6.503.047
Other comprehensive (loss)/income for the year	-	(613.650)	305.950	-	(307.700)
Total comprehensive (loss)/income for the year	-	(613.650)	305.950	6.503.047	6.195.347
Balance at 31 December 2014	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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2015

	Note	2015 €	2014 €
Net cash (used in)/generated by operating activities	**29**	(109.261.452)	7.373.030
Cash flows from investing activities			
Purchase of intangible assets		(771.971)	(456.656)
Purchase of property, plant and equipment		(277.495)	(42.772)
Net disposal/maturity of Cyprus government bonds and treasury bills		14.899.603	10.210.500
Proceeds from dividends		109.125	46.801
Interest on debt securities		2.276.001	4.443.499
Net cash generated by investing activities		16.235.263	14.201.372
Cash flows from financing activities			
Repayment of subordinated loan		-	(3.000.000)
Interest on subordinated loan		-	(25.723)
Net cash used in financing activities		-	(3.025.723)
Net (decrease)/increase in cash and cash equivalents		(93.026.189)	18.548.679
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		-	(361.183)
Cash and cash equivalents at beginning of the year	**30**	220.378.729	202.191.233
Cash and cash equivalents at end of the year	**30**	127.352.540	220.378.729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2015

1. GENERAL INFORMATION

National Bank of Greece (Cyprus) Limited (the "Company") is a limited company incorporated in Cyprus. 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

In the current year, the Group has adopted all of the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2015. 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:**
IFRIC Interpretation 21 "Levies"	17 June 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 January 2015

Up to the date of approval of these financial statements the following standards 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:**
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 Ventures	1 January 2016
Amendments to IAS16 and IAS41: Bearer Plants	1 January 2016
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 27: Equity Method in Separate Financial Statements	1 January 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 9 "Financial Instruments"	1 January 2018
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
IFRS 15 "Revenue from Contract with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities - Applying the Consolidation Exception	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred Indefinitely
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
Amendments to IAS 7: Disclosure Initiative	1 January 2017

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.

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.

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.

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.

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.

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.

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

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2015

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

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.

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.

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 no 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.

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.

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.

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.

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

Taxation (cont'd)

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.

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.

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

Derivative financial instruments

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

Offsetting financial instruments

Financial assets and financial liabilities may be offset and the net amount reported in the balance sheet when 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.

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

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

Provisions for impairment of loans and advances

The 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.
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.

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

Fair value of properties held for own use and investment properties (cont'd)

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.

5. INTEREST INCOME

	2015	**2014**
	€	**€**
Loans and other advances to customers	41.942.988	68.014.111
Deposits with banks and central bank	501.486	3.770.662
Investments held-to-maturity	2.276.001	4.443.499
	44.720.475	76.228.272

6. INTEREST EXPENSE

	2015	**2014**
	€	**€**
Deposits and other customer accounts	8.712.306	15.016.482
Deposits from banks	6.908.312	21.878.580
Subordinated loan	-	25.723
	15.620.618	36.920.785

7. FEE AND COMMISSION INCOME

	2015	**2014**
	€	**€**
Fees	1.430.559	1.480.414
Commissions	3.804.473	3.926.640
	5.235.032	5.407.054

8. NET FOREIGN EXCHANGE GAIN/(LOSS)

Net foreign exchange gain/loss 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

	2015	2014
	€	€
Dividend income	109.125	46.801
Gain on revaluation of investment property	302.000	-
Other income	1.400.833	892.566
	1.811.958	939.367

10. STAFF COSTS

	2015	2014
	€	€
Salaries and employer's contributions	13.377.915	13.941.489
Other staff expenses	(338.963)	285.614
	13.038.952	14.227.103

The number of staff employed by the Group as of 31 December 2015 was 265 (2014: 272).

The bank operates a defined contribution plan.

Under the agreement from 1 January 2012, the employer pays a monthly contribution to the provident fund of 14% on the gross salary. Based on a new agreement signed in March 2014, the Bank proceeded as of 1 January 2014, in a reduction of the monthly contribution to the provident fund from 14% to 12%.

11. OTHER OPERATING EXPENSES

	2015	2014
	€	€
Occupancy costs	666.284	753.067
Rentals	858.639	874.818
Advertising and marketing	284.455	283.110
Repairs and maintenance	894.945	935.109
Administrative expenses	1.165.106	957.569
Other operating expenses	1.260.427	567.551
Special levy tax	1.099.315	1.197.786
Impairment losses of available-for-sale investment	-	66.977
	6.229.171	5.635.987

Other operating expenses include fees of €75.750 (2014: €75.750) paid to the independent auditors of the Group, Deloitte Ltd, for the audit of the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2015

12. TAX

Tax recognised in the income statement:

	2015 €	2014 €
Corporation tax	1.291.454	1.336.346
Deferred tax	(66.973)	145.539
Withholding tax	196.206	2.408.763
	1.420.687	3.890.648

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.

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

	2015 €	2014 €
Profit before tax	11.058.104	10.393.695
Taxation based on applicable tax rates	1.382.263	1.299.212
Tax effect of:		
Disallowed expenses	201.547	346.794
Non taxable income	(292.356)	(309.660)
Deferred tax	(66.973)	145.539
Prior years' taxes		-
Withholding tax	196.206	2.408.763
Taxation charge	1.420.687	3.890.648

13. CASH AND BALANCES WITH THE CENTRAL BANK OF CYPRUS

	2015 €	2014 €
Cash	6.814.405	7.198.809
Balances with the Central Bank of Cyprus:		
- due within three months	11.730.533	23.608.124
	18.544.938	30.806.933

Balances with Central Bank include obligatory deposits for liquidity purposes of an amount of €8.329.145 (2014: €19.734.367).

14. DEPOSITS WITH OTHER BANKS

	2015 €	2014 €
Due within three months	112.319.004	89.771.375
	112.319.004	89.771.375

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

15. LOANS AND OTHER ADVANCES TO CUSTOMERS

	2015	2014
	€	€
Loans and advances to customers	958.301.975	1.557.196.296
Hire purchase and leasing debtors	7.028.974	6.877.739
	965.330.949	1.564.074.035
Provisions for impairment of loans and advances (Note 17)	(261.323.039)	(255.165.958)
	704.007.910	1.308.908.077

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

	2015	2014
	€	€
Due within three months	580.242.640	584.934.442
Between three months and one year	37.965.296	365.336.583
Between one and five years	115.916.961	406.487.534
Over five years	231.206.052	207.315.476
	965.330.949	1.564.074.035

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

	2015	2014
	€	€
Commercial	362.154.580	945.398.595
Construction and manufacturing	314.115.176	344.741.237
Tourism	38.450.680	38.130.262
Personal, professional and housing	170.399.959	173.398.531
Other	80.210.554	62.405.410
	965.330.949	1.564.074.035

Analysis by geographical area:

	2015	2014
	€	€
Cyprus	770.125.514	740.599.698
Greece	137.415.510	761.201.470
Other countries	57.789.925	62.272.867
	965.330.949	1.564.074.035

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

16. BALANCES WITH RELATED BANKS

(a) Deposits with related banks

	2015 €	2014 €
National Bank of Greece S.A.	6.287.218	188.590.600
	6.287.218	188.590.600

The maturity of the above balances is presented below:

	2015 €	2014 €
Due within three months	6.287.218	179.075.010
Between three months and one year	-	9.515.590
	6.287.218	188.590.600

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

(b) Deposits from related banks

	2015 €	2014 €
National Bank of Greece S.A.	139.471.363	761.153.935
	139.471.363	761.153.935

The maturity of the above balances is presented below:

	2015 €	2014 €
Due within three months	139.471.363	713.973.191
Due between three months and one year	-	47.180.744
	139.471.363	761.153.935

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

17. PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES

	Total €
Balance 1 January 2014	222.578.479
Provisions for the year	13.961.813
Write offs against provisions	(2.941.162)
Suspended income	21.566.828
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
Balance 31 December 2015	261.323.039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2015

17. PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES (Cont'd)

Amounts recognized in the income statement:

	2015 €	2014 €
Provision for impairment	5.649.412	13.961.813

18. INVESTMENTS

(a) Available-for-sale investments

	2015 €	2014 €
Listed equity securities	1.937.915	1.537.121
Unlisted equity securities	2.094.152	2.094.152
	4.032.067	3.631.273

Investments available for sale are as follows:

	2015 €	2014 €
JCC Payment Systems Ltd	870.518	870.518
National Insurance (Cyprus) Limited	1.223.634	1.223.634
Master Card International Incorporated	1.925.272	1.518.626
Bank of Cyprus Public Company Ltd	12.643	18.453
Hellenic Bank	-	42
	4.032.067	3.631.273

(b) Held-to-maturity investments

	2015 €	2014 €
Cyprus government bonds and treasury bills	84.500.438	99.400.041

	2015 €	2014 €
Listed on the Cyprus Stock Exchange	84.500.438	99.400.041

The maturity of the above investments is presented below:

	2015 €	2014 €
Within three months	84.500.438	99.400.041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

19. **PROPERTY, PLANT AND EQUIPMENT**

	Land, buildings and installations	Motor vehicles	Furniture and equipment	Total
	€	€	€	€
Cost or valuation				
1 January 2014	18.451.272	263.938	6.527.778	25.242.988
Additions	-	1.650	41.122	42.772
Write offs/disposals	(403.084)	(26.500)	(2.257.486)	(2.687.070)
Revaluation	(926.400)	-	-	(926.400)
Transfer to investment property	(4.168.000)	-	-	(4.168.000)
31 December 2014 / 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	12.461.078	239.088	4.162.592	16.862.758
Depreciation				
1 January 2014	2.696.040	249.192	5.870.813	8.816.045
Charge for the year	524.145	13.441	191.579	729.165
Write off/disposals	(383.133)	(26.500)	(2.231.588)	(2.641.221)
Adjustment on revaluation	(312.750)	-	-	(312.750)
31 December 2014 / 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	2.551.359	237.331	3.564.314	6.353.004
Net book value				
31 December 2015	9.909.719	1.757	598.278	10.509.754
31 December 2014	10.429.486	2.955	480.610	10.913.051

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 2015 were performed by independent valuers not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

20. INVESTMENT PROPERTY

	2015	2014
	€	€
Balance at 1 January	4.168.000	-
Transferred from property, plant and equipment	-	4.168.000
Gain in fair value	302.000	-
	4.470.000	4.168.000

The fair value measurement of the Group's investment property as at 31 December 2015 was performed by independent valuers not related to the Group.

21. INTANGIBLE ASSETS

	Computer software	
	2015	2014
	€	€
Cost		
1 January	11.416.287	10.959.631
Additions	771.971	456.656
Write offs	(1.729.097)	-
31 December	10.459.161	11.416.287
Amortisation		
1 January	6.647.075	6.249.677
Charge for the year	382.254	397.398
Write offs	(1.729.097)	-
31 December	5.300.232	6.647.075
Net book value		
31 December	5.158.929	4.769.212

22. OTHER ASSETS

	2015	2014
	€	€
Prepaid expenses	370.340	204.279
Debtors and other receivables	1.004.398	925.119
Other assets	69.727	59.174
	1.444.465	1.188.572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

23. DEPOSITS FROM OTHER BANKS

	2015 €	2014 €
Interbank borrowing	2.793.571	1.228.334
Other deposits	-	662.638
	2.793.571	1.890.972

The maturity of the above balances is presented below:

	2015 €	2014 €
Due within three months	2.793.571	1.890.972

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

24. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	2015 €	2014 €
Time and Notice accounts	421.280.437	594.621.214
Demand and current accounts	143.463.092	127.295.165
Savings accounts	50.033.382	67.217.441
	614.776.911	789.133.820

Analysis by geographical area

	2015 €	2014 €
Cyprus	467.477.363	663.652.373
Greece	102.655.469	56.162.240
Other countries	44.644.079	69.319.207
	614.776.911	789.133.820

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

The above mentioned balances maturity is presented below:

	2015 €	2014 €
Due within three months	409.053.107	555.274.114
Between three months and one year	205.723.804	233.859.706
	614.776.911	789.133.820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

25. OTHER LIABILITIES

	2015 €	2014 €
Receipts on behalf of third parties	731.770	2.175.996
Provision for staff leaving indemnities	350.060	492.806
Cheques - drafts payable	1.682.449	3.998.428
Fair value of derivatives	23.788	15.443
Other liabilities	6.304.384	7.823.354
Deferred tax	2.063.668	2.130.642
	11.156.119	16.636.669

Other liabilities include provisions for pending litigations or complaints and/or claims amounting to €1.437.637 (2014: €904.735).

26. SHARE CAPITAL

	2015		2014	
	Shares	€	Shares	€
Authorised:				
Ordinary shares of Euro 1,71 each	30.000.000	51.300.000	30.000.000	51.300.000
Issued and fully paid				
Ordinary shares of Euro 1,71 each	30.000.000	51.300.000	30.000.000	51.300.000

27. REVALUATION RESERVE

	Land and buildings €	Available-for-sale investments €	Total €
Balance 1 January 2014	8.331.378	2.281.249	10.612.627
(Loss)/gain from change in fair value	(613.650)	305.950	(307.700)
Balance 31 December 2014	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	7.424.451	2.988.080	10.412.531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2015

28. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2015 €	2014 €
Acceptances and Endorsements	15.872.611	19.915.071
Letters of Guarantee	24.158.981	16.706.444
Letters of Credit	15.757.120	19.112.598
Customers' credit limits that have been approved but have not been used	107.518.068	172.330.747
	163.306.780	228.064.860

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

Pending litigations and claims

As at 31 December 2015 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

	2015 €	2014 €
Profit before taxation	11.058.104	10.393.695
Depreciation of property, plant and equipment	346.918	729.165
Amortisation of intangible assets	382.254	397.398
Interest on subordinated loan	-	25.723
Provision for unused vacation	(142.746)	(207.407)
Provision for impairment of loans and advances	5.649.412	13.961.813
Net foreign exchange income	-	18.269
Loss on disposal of property, plant and equipment	40.595	45.850
Loss/(profit) from derivative financial instruments	9.237	(205.597)
Gain on revaluation of investment property	(302.000)	-
Dividend income	(109.125)	(46.801)
Interest on debt securities	(2.276.001)	(4.443.499)
Impairment of equity securities	-	66.976
	14.656.648	20.735.585
Decrease/(increase) in loans and other advances	599.250.755	(157.518.052)
Decrease in deposits and other customer accounts	(174.357.109)	(12.606.242)
Increase in deposits with other banks	(1.457.523)	(5.806)
Decrease/(increase) in obligatory balances with Central Bank of Cyprus	11.405.222	(6.823.877)
Increase in deposits from other banks	902.596	170.351
Decrease/(increase) in deposits with related banks	69.043.861	(4.063.017)
(Decrease)/increase in deposits from related banks	(621.682.572)	162.900.505
(Increase)/decrease in other assets	(256.786)	993.266
(Decrease)/increase in other liabilities	(5.278.884)	6.915.590
Net cash (used in)/generated by operations	(107.773.792)	10.698.303
Tax paid	(1.487.660)	(3.325.273)
Net cash (used in)/generated by operating activities (Page 9)	(109.261.452)	7.373.030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

30. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents

	2015 €	2014 €
Cash (Note 13)	6.814.405	7.198.809
Non-obligatory balances with Central Bank of Cyprus	3.401.388	3.873.757
Deposits with related banks - due within three months	6.287.218	119.546.739
Deposits with other banks - due within three months	110.849.529	89.759.424
	127.352.540	220.378.729

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 company of the Group is National Bank of Greece S.A., a company registered in 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	
	2015 €	2014 €	2015 €	2014 €
National Bank of Greece S.A.	627.680	3.547.325	6.945.450	21.849.181
Subsidiaries of National Bank of Greece S.A.	4.376.277	22.138.943	874.380	1.374.000

Balances with related companies

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

	2015 €	2014 €
Deposits and other customer accounts		
National Securities S.A.	1.449.188	68.881
NBG Management Services Limited	2.869.795	3.846.408
National Insurance (Cyprus) Limited	3.354.858	2.289.099
National General Insurance (Cyprus) Ltd	3.629.829	2.668.988
	11.303.670	8.873.376

31. RELATED PARTY TRANSACTIONS (Cont'd)

Balances with related companies (Cont'd)

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

	2015 €	2014 €
Loans and other advances		
Astir Palace Vouliagmenis S.A.	116.992	156.164
Ethniki Leasing S.A. *	-	274.570.317
Ethniki Factors S.A. *	-	315.029.523
Ethniki Hellenic General Insurance S.A. *	-	45.030.653
NBG Leasing IFN S.A.	29.303.459	31.003.660
	29.420.451	665.790.317

* During the year the above loans have been transferred to other subsidiary of the parent company of the Group at no gain, no loss.

Deposits with and from related banks are presented in note 16 to the consolidated financial statements.

Key management personnel

	2015 €	2014 €
Loans and advances to members of the Board of Directors and connected persons	4.121	479
Interest income	-	-
Deposits of members of the Board of Directors and connected persons	323.193	1.324.509
Interest expense	18.401	10.038

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.

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:

	2015 €	2014 €
Fees paid to Directors as members of the Board	12.600	12.900
Executive Directors emoluments		
Salaries and other short-term benefits	345.559	328.647
Employer's contributions	4.947	4.908
	350.506	333.555
Total compensation	363.106	346.455

32. SUBSIDIARY COMPANY

Details of the Company's subsidiary are as follows:

Name	Country of incorporation	% Participation 2015	% Participation 2014
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 2015.

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

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 continues to be subdued and puts 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 Euro86billion fresh loans with a series of reforms to take place. On 20 August 2015 the first tranche of Euro13billion of the new program was received, out of which Euro10billion 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 Euro3billion 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 Euro14,4 billion. The parent shortfall needs under the baseline scenario was only Euro1, 4 billion (and Euro4,4 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 bank sector stabilized its deposits following the imposition of capital controls and normalization of government spending.

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

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 expended 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 2015

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.

2015	Maximum exposure to credit risk €	Fair value of collateral and credit enhancements held by the Company Cash €	Securities €	Property €	Other €	Net collateral €	Net exposure to credit risk €
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						

34. RISK MANAGEMENT

a) Credit risk (cont'd)

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

2014	Maximum exposure to credit risk €	Fair value of collateral and credit enhancements held by the Company Cash €	Securities €	Property €	Other €	Net collateral €	Net exposure to credit risk €
Balances with Central Bank of Cyprus	19.734.367	-	-	-	-	-	19.734.367
Deposits with banks	278.361.975						278.361.975
Loans and other advances	1.308.908.077	652.932.231	9.758.123	415.985.337	3.006.421	1.081.682.112	227.225.965
Debt securities classified as held-to-maturity	99.400.041	-	-	-	-	-	99.400.041
Available-for-sale investments	3.631.273	-	-	-	-	-	3.631.273
Other assets	1.188.572	-	-	-	-	-	1.188.572
On-balance sheet total	1.711.224.305	652.932.231	9.758.123	415.985.337	3.006.421	1.081.682.112	629.542.193
Contingent liabilities and commitments							
Acceptances and endorsements	19.915.071						
Letters of guarantee	16.706.444						
Letters of credit	19.112.598						
Undrawn credit lines and other commitments to lend	172.330.747						
Off-balance sheet total	228.064.860						
Total credit risk exposure	1.939.289.165						

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 Restrucured and marked as "re-restructured".
- Non-performing loans which have been impaired on a collective basis and are in arrears over 90 days.

	2015	**2014**
	€	**€**
Neither past due nor impaired	359.859.655	689.150.830
Past due but not impaired	109.478.747	349.524.486
Impaired	495.992.547	525.398.719
	965.330.949	1.564.074.035

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

	2015	**2014**
	€	**€**
Past due up to 30 days	69.101.381	314.984.761
Past due 31 - 60 days	5.735.385	25.347.520
Past due 61 - 90 days	5.089.277	1.796.117
Past due over 90 days	29.552.704	7.396.088
	109.478.747	349.524.486

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 2015 amounts to €97.423.985 (2014: €314.397.112).

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

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:

	2015 €	2014 €
Commercial	149.220.788	140.372.974
Construction and manufacturing	166.896.635	224.236.631
Tourism	16.235.775	16.959.450
Personal, professional and housing	112.872.066	105.140.456
Other	50.767.283	38.689.208
	495.992.547	525.398.719

Analysis by geographical area:

	2015 €	2014 €
Cyprus	470.740.828	491.899.748
Other countries	25.251.719	33.498.971
	495.992.547	525.398.719

The fair value of collateral that the Group holds for impaired loans as at 31 December 2015 amounts to €242.013.318 (2014: €264.498.000).

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

Rescheduled loans and other advances to customers

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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 forborne exposures in accordance with the EBA technical standards, the tangible and measurable collateral and other credit enhancements held and the net exposure to credit risk.

2015	**Maximum exposure to credit risk €**	**Fair value of collateral €**	**Net exposure to credit risk €**
Neither past due nor impaired	75.421.031	42.243.254	33.177.777
Past due but not impaired	41.715.115	40.866.300	848.815
Impaired	50.599.022	47.487.166	3.111.856
	167.735.168	130.596.720	37.138.448

2014	**Maximum exposure to credit risk €**	**Fair value of collateral €**	**Net exposure to credit risk €**
Neither past due nor impaired	59.104.766	16.742.217	42.362.549
Past due but not impaired	25.607.756	18.115.511	7.492.245
Impaired	59.694.637	45.465.042	14.229.595
	144.407.159	80.322.770	64.084.389

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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 exposures with forbearance measures				of which exposures with forbearance measures	
		of which non-performing exposures**		of which on non-performing exposures		of which non-performing exposures**		of which on non-performing exposures
Loans and advances*								
General governments	1.509.504	-	-	-	18.399	-	-	-
Other financial corporations	89.039.970	40.249.036	31.830.013	30.209.662	10.706.386	9.571.819	46.225	9.045
Non-financial corporations	623.762.589	355.952.298	110.984.965	79.733.062	150.233.277	145.488.548	3.723.688	2.944.063
Of which: Small and Medium-sized Enterprises	590.350.283	353.599.342	110.984.965	79.733.062	147.517.071	143.614.177	3.723.688	2.944.063
Of which: Commercial real estate	91.660.148	60.242.189	16.402.935	9.535.864	26.875.585	26.071.372	1.519.794	1.357.360
By sector								
1. G Wholesale & Retail Trade	220.543.129	116.165.997			64.267.168			
2. F Construction	146.414.973	104.670.119			27.934.235			
3. C Manufacturing	82.819.043	41.556.208			24.788.428			
4. L Real Estate Activities	74.854.917	39.731.668			13.409.301			
5. I Accommodation & Food Services Activities	31.012.490	12.804.913			3.548.313			
Other sectors	68.118.037	41.023.393			16.285.831			
Households	251.018.886	182.337.117	24.920.189	18.350.790	100.364.977	98.543.358	1.962.152	1.859.394
Of which: Residential mortgage loans	68.599.228	45.189.626	14.727.795	12.528.262	15.478.507	15.105.905	341.556	311.874
Of which: Credit for consumption	56.297.815	37.864.421	3.317.457	2.797.526	25.487.956	24.519.810	1.255.715	1.239.655

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

**As per EBA definition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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 2014

Table A

	Gross carrying amount				Accumulated impairment			
			of which exposures with forbearance measures				of which exposures with forbearance measures	
		of which non-performing exposures**		of which on non-performing exposures		of which non-performing exposures**		of which on non-performing exposures
Loans and advances*								
General governments	1.814.251	-	-	-	22.113	-	-	-
Other financial corporations	683.851.754	10.178.093	31.813.642	809.983	9.245.875	9.048.417	431	431
Non-financial corporations	627.152.631	362.329.152	91.105.541	52.624.659	151.707.870	146.955.154	2.551.391	1.824.166
Of which: Small and Medium-sized Enterprises	75.443.383	47.750.693	4.719.613	3.089.724	18.452.042	17.659.007	294.266	237.756
Of which: Commercial real estate	97.879.117	63.150.627	12.084.049	4.851.727	30.515.604	29.573.301	860.520	637.388
By sector								
1. G Wholesale & Retail Trade	209.492.365	111.594.106			61.451.484			
2. F Construction	161.211.944	134.696.767			36.802.727			
3. C Manufacturing	84.378.210	41.427.218			22.150.668			
4. L Real Estate Activities	77.810.074	35.897.974			13.603.988			
5. I Accommodation & Food Services Activities	31.059.426	10.644.654			3.392.699			
Other sectors	63.200.612	28.068.433			14.306.304			
Households	251.255.400	170.897.985	21.487.975	6.259.993	94.190.100	91.996.091	1.161.630	628.163
Of which: Residential mortgage loans	97.264.079	45.348.632	17.979.789	4.192.187	10.838.008	9.893.651	537.545	107.341
Of which: Credit for consumption	153.991.324	125.549.340	3.508.186	2.067.806	83.352.090	82.102.440	624.085	520.822

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

**As per EBA definition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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 2015

Table B

	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment
Loan origination date*												
Within 1 year	175.613.117	75.643.530	3.782.207	88.941.071	41.412.425	1.624.564	76.008.277	30.209.662	1.060.053	10.663.769	4.021.443	1.097.588
1 – 2 years	74.253.764	34.106.186	2.189.147	49.799.247	22.328.708	1.156.768	2.759	-	393	24.451.758	11.777.478	1.031.986
2 – 3 years	61.187.217	13.427.286	2.572.341	52.143.309	10.060.334	1.074.612	146	-	20	9.043.762	3.366.952	1.497.709
3 – 5 years	43.591.829	21.180.335	5.137.164	28.689.531	14.363.222	2.988.185	557	-	81	14.901.741	6.817.113	2.148.900
5 – 7 years	141.258.679	73.471.423	22.981.104	106.367.433	54.577.009	16.026.302	2.634.769	145.782	131.017	32.256.477	18.748.632	6.823.785
7 – 10 years	134.156.720	99.100.165	43.144.334	75.668.955	54.262.434	24.300.299	146.233	99.816	25.636	58.341.532	44.737.915	18.818.399
More than 10 years	333.760.119	261.609.526	181.498.343	222.153.043	158.948.166	103.062.547	10.247.229	9.793.776	9.489.186	101.359.847	92.867.584	68.946.610
	963.821.445	**578.538.451**	**261.304.640**	**623.762.589**	**355.952.298**	**150.233.277**	**89.039.970**	**40.249.036**	**10.706.386**	**251.018.886**	**182.337.117**	**100.364.977**

*Loan origination date is defined as the contractual loan origination date for each accou\nt.

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Year ended 31 December 2015

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 2014

Table B

	Gross carrying amount of total loans			**Loans to non-financial corporations**			**Loans to other financial corporations**			**Loans to households**		
		Non-performing loans	**Accumulated impairment**		**Non-performing loans**	**Accumulated impairment**		**Non-performing loans**	**Accumulated impairment**		**Non-performing loans**	**Accumulated impairment**
Loan origination date*												
Within 1 year	471.799.132	40.980.446	2.406.905	74.162.773	36.715.718	1.200.657	371.152.329	2	790	26.484.030	4.264.726	1.205.458
1 - 2 years	311.973.875	12.747.590	2.413.481	59.853.280	10.001.931	1.189.331	241.455.023	48	22	10.665.572	2.745.611	1.224.128
2 - 3 years	32.800.407	14.458.955	1.700.628	24.387.204	11.107.428	945.524	810.720	809.984	536	7.602.483	2.541.543	754.568
3 - 5 years	116.654.380	13.861.000	3.655.952	44.814.188	12.120.871	1.842.807	52.916.206	2	112.151	18.923.986	1.740.127	1.700.994
5 - 7 years	77.000.654	14.130.205	4.050.723	55.647.738	10.083.774	2.847.878	7.397.359	19	62.695	13.955.558	4.046.412	1.140.150
7 - 10 years	462.309.421	23.058.771	236.477.890	289.192.509	17.160.896	140.233.815	9.412.457	5	9.048.972	163.704.455	5.897.870	87.195.103
More than 10 years	89.721.915	424.168.263	4.438.266	79.094.939	265.138.534	3.447.858	707.660	9.368.033	20.709	9.919.316	149.661.696	969.699
	1.562.259.784	**543.405.230**	**255.143.845**	**627.152.631**	**362.329.152**	**151.707.870**	**683.851.754**	**10.178.093**	**9.245.875**	**251.255.400**	**170.897.985**	**94.190.100**

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

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:

	2015 €	2014 €
Aaa - Aa3	15.787.952	2.169.938
A1 - A3	82.794.168	36.560.684
Baa1 - Baa3	12.359.278	25.696.212
B1 - B3	9.614.819	19.734.367
Caa1 - Caa3	6.287.218	188.590.600
Unrated	3.493.320	25.344.542
	130.336.755	298.096.343

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

	2015 €	2014 €
B1 (2014: B3)	84.500.438	99.400.041

	2015 €	2014 €
Issued by:		
Cyprus government	84.500.438	99.400.041
	84.500.438	99.400.041
Classified as:		
Held-to-maturity investments	84.500.438	99.400.041
	84.500.438	99.400.041

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

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. The financial liabilities analysis disclosed in the tables represents the contractual undiscounted cash flows. However, 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.

2015	**Less than 1 month** €	**Between 1-3 months** €	**Between 3 months to 1 year** €	**Between 1-5 years** €	**Over 5 years** €	**Total** €
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
	549.119.553	5.872.249	39.216.257	112.173.546	224.754.435	931.136.040
Financial liabilities						
Deposits from banks	142.542.480	-	-	-	-	142.542.480
Deposits and other customer accounts	281.914.589	127.503.732	207.026.888	50.886	-	616.496.095
Other liabilities	1.395.045	3.678.644	4.612.133	1.470.297	-	11.156.119
	425.852.114	131.182.376	211.639.021	1.521.183	-	770.194.694

34. **RISK MANAGEMENT (Cont'd)**

b) **Liquidity risk (cont'd)**

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

2015	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
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
	113.450.628	26.917.691	11.574.264	8.368.861	2.995.336	163.306.780

2014	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
Financial assets						
Cash and balances with Central Bank of Cyprus	30.806.933	-	-	-	-	30.806.933
Deposits with banks	255.699.342	13.147.043	9.515.590	-	-	278.361.975
Loans and other advances	326.378.476	3.390.008	365.336.583	406.487.534	207.315.476	1.308.908.077
Available-for-sale investments	3.631.273	-	-	-	-	3.631.273
Held-to-maturity investments	99.400.041	-	-	-	-	99.400.041
Other assets	64.897	919.397	135.999	68.279	-	1.188.572
	715.980.962	17.456.448	374.988.172	406.555.813	207.315.476	1.722.296.871
Financial liabilities						
Deposits from banks	709.464.343	8.016.720	48.776.352	-	-	766.257.415
Deposits and other customer accounts	377.463.777	187.361.027	226.952.697	-	-	791.777.501
Other liabilities	11.487.414	511.722	570.493	4.067.041	-	16.636.670
	1.098.415.534	195.889.469	276.299.542	4.067.041	-	1.574.671.586
Off-balance sheet items						
Acceptances and endorsements	-	-	19.915.071	-	-	19.915.071
Letters of g+uarantee	-	-	16.706.444	-	-	16.706.444
Letters of credit	-	-	19.112.598	-	-	19.112.598
Amount of unutilised credit facilities	172.330.747	-	-	-	-	172.330.747
	172.330.747	-	55.734.113	-	-	228.064.860

34. RISK MANAGEMENT (Cont'd)

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.

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 100 basis points higher. A positive number below indicates an increase in profit/equity. For a decrease of 100 basis points there would be an equal and opposite impact on the net profit and equity.

Change in interest rates	Euro €'000	USD Dollars €'000	British Pound €'000	Other currencies €'000	Total €'000
2015					
+100 b.p. in all currencies	7.165	346	100	73	7.684
2014					
+100 b.p. in all currencies	12.740	40	34	123	12.937

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.

34. **RISK MANAGEMENT (Cont'd)**

c) **Market risk (cont'd)**

Currency risk (cont'd)
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 €'000	Change in exchange rate %	Impact on net profit/ equity €'000
2015			
US Dollar	(736)	+5	(37)
British Pound	(108)	+5	(5)
Other currencies	1.007	+5	50
2014			
US Dollar	593	+5	30
British Pound	(2.957)	+5	(148)
Other currencies	2.931	+5	147

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, regardless of whether that price is directly observable or estimated using another valuation technique.

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.

34. RISK MANAGEMENT (Cont'd)

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

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.

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.

2015	Level 1 €	Level 2 €	Level 3 €	Total €
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	1.937.915	37.776	2.094.152	4.069.843
Financial liabilities at FVTPL				
Derivative financial liabilities	-	23.788	-	23.788
Total	-	23.788	-	23.788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

34. **RISK MANAGEMENT (Cont'd)**

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

2014	Level 1 €	Level 2 €	Level 3 €	Total €
Financial assets at FVTPL				
Derivative financial assets	-	38.668	-	38.668
Available-for-sale investments				
Equities	1.537.121	-	2.094.152	3.631.273
Total	1.537.121	38.668	2.094.152	3.669.941
Financial liabilities at FVTPL				
Derivative financial liabilities	-	15.443	-	15.443
Total	-	15.443	-	15.443

Reconciliation of Level 3 fair value measurements

	Available-for-sale unlisted shares	
	2015 €	2014 €
Balance of 1 January	2.094.152	2.025.806
Total gains/(losses) in other comprehensive income	-	68.346
Balance of 31 December	2.094.152	2.094.152

During 2015 and 2014 there were no transfers from Level 1 and Level 2.

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.

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 2018.

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 add-ons), 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.

	2015 **€'000**
Common Equity Tier 1 (CET1)	177.919
Additional Tier 1 Capital (AT1)	-
Tier 2 Capital (T2)	-
Regulatory Capital	177.919
Risk weighted assets - credit risk	636.908
Risk weighted assets - market risk	1.250
Risk weighted assets - operational risk	76.625
Total risk weighted assets	714.783

	2015 **%**
Common Equity Tier 1 (CET1) ratio	24,89
Tier 1 ratio	24,89
Total capital ratio	24,89

35. **CAPITAL MANAGEMENT (Cont'd)**

The Group's capital position under the rules which were applicable as at 31 December 2014 is presented below:

	2014 **€'000**
Common Equity Tier 1 (CET1)	166.046
Additional Tier 1 Capital (AT1)	-
Tier 2 Capital (T2)	2.016
Regulatory Capital	168.062
Risk weighted assets - credit risk	846.266
Risk weighted assets - market risk	3.525
Risk weighted assets - operational risk	79.738
Total risk weighted assets	929.529

	2014 **%**
Common Equity Tier 1 (CET1) ratio	17,86
Tier 1 ratio	17,86
Total capital ratio	17,86