NATIONAL BANK OF GREECE
(CYPRUS) LIMITED

Report and Financial Statements
Year ended 31 December 2018

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

Board of Directors:	
Chair of the Board:	Louka Katseli, Independent Non-Executive Member
Vice Chairman:	Marinis Stratopoulos, Non-Executive Member
Members:	Christos Christodoulou, Managing Director (CEO), Executive Member Ioannis Tzimos, General Manager, Executive Member Stavros Stavrou, Senior Independent, Non-Executive Member Mark Klerides, Independent, Non-Executive Member Christodoulos Seferis, Independent Non-Executive Member Paul Mylonas, Non-Executive Member (resigned 30 May 2018) Nicholas Defteras, Independent, Non-Executive Member (appointed 30 May 2018)
The Board of Directors, as at 31.12.2018 comprised the following Members:	
Chair of the Board:	Louka Katseli, Independent, Non-Executive Member
Vice Chairman:	Marinis Stratopoulos, Non-Executive Member
Members:	Stavros Stavrou, Senior Independent, Non-Executive Member Christos Christodoulou, Managing Director (CEO), Executive Member Christodoulos Seferis, Independent, Non-Executive Member Ioannis Tzimos, General Manager, Executive Member Mark Klerides, Independent, Non-Executive Member Nicholas Defteras, Independent, Non-Executive Member
Secretary	Lucia Pagdati 15 Arch. Makarios III, 1065 Nicosia, Cyprus
Independent Auditors	PricewaterhouseCoopers Limited 43 Demostheni Severi Avenue, 1080 Nicosia, Cyprus
Legal Advisers	Chrysses Demetriades & Co Velaris & Velaris LLC
Registered Office	15 Arch. Makarios III, 1065 Nicosia, Cyprus

MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2018

The Board of Directors presents the management report together with the audited financial statements of the Bank for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

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

OPERATING ENVIRONMENT

The operating environment of the Bank is presented in Note 38 of the financial statements.

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

As presented on page 13 of the financial statements, the profit of the Bank after taxation amounted to €3.009.694 (2017: loss of €7.060.098).

The main financial highlights for the year are set out below. The increase in the Bank's profitability during the year-ended 31 December 2018 was primarily attributable to the decrease in provision for impairment of loans and advances during the year. The decrease in provision for impairment of loans and advances was mainly due to recoveries during the year of previously fully provided exposures.

The main highlight in relation to the financial performance of the Bank was the transfer of most of the Bank's stage 3 loan portfolio with net book value of €167,5 million to CAC Coral Limited (entity under common control), at no gain, no loss. Out of the total consideration of €167,5 million, an amount of €70 million was settled via a reduction in retained earnings.

	2018 €'000	**2017 €'000**
Net Interest Income	15.277	22.265
Fee and Commission Income	4.684	4.969
Other Income and Foreign Exchange Gains	1.604	1.137
Staff Costs	(14.465)	(14.058)
Other Operating Expenses	(5.266)	(6.714)
Credit/(charge) for Impairment of Loans and Advances to Customers	2.376	(15.217)
Profit/(loss) for the Year, after Tax	3.010	(7.060)
Gross Loans	276.882	747.163
Customer deposits	587.445	572.690
Total Assets	683.633	790.352
Total Equity	74.917	182.036

	2018	**2017**
Net Interest Margin	2,4%	2,8%
Cost to Income ratio	91,5%	73,2%
Return on average equity	2,2%	-3,7%
Loans to Customer Deposits (net)	44,4%	86,3%
NPEs to Gross Loans	18,1%	68,0%
Total capital ratio	28,6%	26,7%
Core Equity Tier 1 ratio	28,6%	26,7%

MANAGEMENT REPORT (continued)
YEAR ENDED 31 DECEMBER 2018

BRANCH NETWORK

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

GOING CONCERN

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

Despite uncertain economic environment in Cyprus as described in Note 38 of the financial statements, the Board of Directors of the Bank has assumed that the Bank has the ability to continue its operations as a going concern on the basis of the Bank's liquidity and capital adequacy position as disclosed in Note 40 of the financial statements.

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

The Bank is exposed to various risks, the most important of which are Credit Risk, Liquidity Risk, and Market Risk (including interest rate risk and foreign exchange risk). Detailed information relating to the Bank's risk exposures and risk management are set out in Note 39 of the financial statements.

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

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

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

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

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

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

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

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

Market risk (continued)

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

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

EXPECTED FUTURE DEVELOPMENTS OF THE BANK / STRATEGIG TARGETS

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

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

- Effective management of the performing portfolio in order to restrain the creation of new non-performing loans
- Effectively manage the non-performing and further reduce the Bank's NPL ratio.
- Maintain healthy – low cost liquidity, and maintains adequate regulatory liquidity ratios in accordance with the Central Bank of Cyprus liquidity requirements.
- Generate new interest and non-interest income, increasing profitability and profitability ratios.
- Strengthen capital adequacy position.
- Further strengthening of banking services towards Real Estate, Energy, Education, Shipping and Construction industries.

SHARE CAPITAL

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

RESULTS

The Bank's results for the year are set out on pages 13 and 14. The profit for the year is transferred to retained earnings.

As part of the CAC Coral Ltd transaction as disclosed in Note 37 there was a reduction in retained earnings in the amount of €70 million.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in Note 42 of the Financial Statements.

MANAGEMENT REPORT (continued)
YEAR ENDED 31 DECEMBER 2018

BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2018 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2018 and up to the date of this report except from Mr Nicholas Defteras who was appointed as Independent non-executive member on 30 May 2018. Mr Paul Mylonas who held office on 1 January 2018, resigned on 30 May 2018.

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

INDEPENDENT AUDITORS

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

By order of the Board of Directors

Louka Katseli
Chairwoman

Lucia Pagdati
Secretary

Nicosia, 23 April 2019

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of parent company National Bank of Greece (Cyprus) Limited (the "Bank") give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the parent company financial statements which are presented in pages 13 to 111 and comprise:

- the Balance Sheet as at 31 December 2018;
- the Income statement for the year then ended;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Statement of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies.

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

Basis for opinion

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

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

Independence

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Credit loss allowance on loans and advances to customers, using the expected credit loss model in line with the requirements of IFRS 9 "Financial Instruments" including impact of adoption on 1 January 2018. We focused on this area because this is a new and complex accounting standard for which new models have been developed by the Bank to calculate expected credit losses ("ECL") on adoption of IFRS 9 as of 1 January 2018 and for the year ended 31 December 2018 and significant judgements and estimates are involved in estimating expected credit losses on loans and advances to customers. Loans and advances to customers comprise a large portion of the Bank's total assets and in view of the significance of the judgements and estimates involved in estimating expected credit losses on loans and advances to customers, on 1 January 2018, on adoption of IFRS9 and for the year ended 31 December 2018, we have considered this to be a key audit matter. Note 2 "Adoption of New and Revised International Financial Reporting Standards and Interpretations", Note 3 "Summary of Significant Accounting Policies", Note 5 "Critical Accounting Estimates and Judgments", Note 22 "Credit loss allowance on loans and advances to customers" and Note 39 "Risk Management" to the financial statements provide detailed information on the estimation of expected credit losses on loans and advances to customers, on credit risk management practices, credit risk exposures, as well as qualitative and quantitative information arising from expected credit losses on loans and advances to customers.	We obtained an understanding of the models used by the Bank and evaluated management's implementation process of these models for the calculation of expected credit losses ("ECL"). These included probability-weighted macroeconomic scenarios, staging criteria and loss given default estimates. We also performed the following procedures: • Assessed the Bank's methodology for expected credit loss provisioning; • Reviewed the Bank's business model assessment; • Assessed the reasonableness of the key outputs calculated by the models, as well as the key judgements and assumptions used by Management for the implementation of the models; • Assessed the disclosures made against the relevant accounting standards. We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias: The measurement of ECL on loans and advances to customers, which is dependent on the main parameters of probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), discount rates and relevant forward looking information.

Key Audit Matter	How our audit addressed the Key Audit Matter
	In obtaining sufficient audit evidence we: • Obtained an understanding and assessed the reasonableness of the key outputs calculated by the models; • Reviewed the design and operating effectiveness of key controls around the process of loan performance monitoring; • Evaluated, challenged and tested the key assumptions and judgements adopted by management; • Reviewed the Bank's methodology for ECL provisioning to establish key inputs used in the calculation of ECL and on a sample basis tested the key inputs used. Inputs used in the sample tested were compared to the ECL methodology to ensure consistency with policies; • Performed procedures to obtain comfort on the accuracy of the ECL calculation process through recalculation; • Performed procedures to ensure that the Bank applies the three stage approach for categorisation of loans and advances to customers and that changes in credit quality since initial recognition are appropriately monitored, determined and reflected in the Bank's financial position; • Performed loan file reviews to inspect financial particulars and assessed the adequacy of ECL; • Assessed the disclosures made against the relevant accounting standards. The results of the above procedures were satisfactory.

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Recoverability of Deferred Tax Assets as at 1 January 2018 and 31 December 2018	In obtaining sufficient audit evidence:

Recoverability of Deferred Tax Assets as at 1 January 2018 and 31 December 2018

As at 31 December 2018, the Bank has deferred tax assets of €6,3 million in respect of tax losses available to be carried forward to future years. An amount of €5.8 million arose upon the adoption of IFRS9 and was recognised in the opening retained earnings as of 1 January 2018. The basis of the recognition is presented in Note 3 "Summary of Significant Accounting Policies" and further analysed in Note 5 "Critical Accounting Estimates and Judgements" and Note 16 "Income Tax".

The recovery and carrying amount of the deferred tax assets require management judgement and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward.

In light of the inherent uncertainty and significant amount of judgement and estimation required by management, we have considered future forecasts supporting the recognition of deferred tax assets to be a key audit matter.

In obtaining sufficient audit evidence:

- We agreed the historical taxable losses which have given rise to the deferred tax asset to appropriate supporting documentation such as prior year tax computations;
- We agreed future taxable profits as estimated by management to the Bank's 5 year business plan whose internal mathematical consistency and calculations were assessed for accuracy;
- We assessed projected taxable profits for reasonableness with reference to known historical results of the Bank;
- We assessed management's growth estimates relating to projected new lending against macroeconomic projections from external sources;
- We assessed management's plans for new lending for reasonableness with reference to existing and projected levels of excess liquidity;
- We assessed the Bank's projected cost base for reasonableness with reference to the historical cost basis as adjusted for expected changes thereon;
- We assessed the level of projected impairment losses for consistency with the level of projected new lending;
- We scrutinised via recalculation the accuracy of the Bank's sensitivity analysis pertaining to adverse developments that may depart from projected outcomes;
- We assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards.

The results of the above procedures were satisfactory.

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Reporting on other information

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

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

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

Responsibilities of the Board of Directors and those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Bank on 5 October 2017 by the Board of Directors of the Bank for the audit of the financial statements for the year ended 31 December 2017. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 2 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued 23 April 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

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Other Legal Requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.

- In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

Other Matter

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

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

George C. Kazamias

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

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

23 April 2019

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €	2017 €
Interest income	6	**17.929.745**	25.861.525
Interest expense	7	**(2.652.299)**	(3.596.126)
Net interest income		**15.277.446**	22.265.399
Fee and commission income	8	**4.684.064**	4.968.722
Net foreign exchange gains	9	**563.267**	192.216
Other income	10	**874.581**	945.106
Other losses	11	**(3.733)**	(263.500)
Other gains	12	**357.694**	-
		21.753.319	28.107.943
Staff costs	14	**(14.465.262)**	(14.058.043)
Depreciation of property, plant and equipment	25	**(282.685)**	(295.329)
Amortisation of intangible assets	27	**(511.665)**	(477.360)
Other operating expenses	15	**(4.472.006)**	(5.941.155)
		(19.731.618)	(20.771.887)
Profit before impairment of loans and advances to customers		**2.021.701**	7.336.056
Reversal of impairment losses/(impairment losses) on loans and advances to customers	22	**2.376.775**	(15.217.564)
Impairment losses on other financial assets	13	**(857.004)**	-
Reversal of impairment losses/(impairment losses) on financial assets		**1.519.771**	(15.217.564)
Profit/(loss) before tax		**3.541.472**	(7.881.508)
Tax	16	**(531.778)**	821.410
PROFIT/(LOSS) FOR THE YEAR		**3.009.694**	(7.060.098)

The notes on pages 18 to 111 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €	2017 €
PROFIT/(LOSS) FOR THE YEAR		**3.009.694**	(7.060.098)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on revaluation of properties	33	-	415.299
Changes in the fair value of equity investments designated at fair value through other comprehensive income	33	**763.970**	-
Items that will not be reclassified to profit or loss		**763.970**	415.299
Items that may be subsequently reclassified to profit or loss			
Gain on revaluation of available-for-sale investments	33	-	593.855
Items that may be subsequently reclassified to profit or loss		-	593.855
Other comprehensive income for the year, net of tax		**763.970**	1.009.154
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**3.773.664**	(6.050.944)

The notes on pages 18 to 111 form an integral part of the financial statements.

BALANCE SHEET AT 31 DECEMBER 2018

	Note	2018 €	2017 €
ASSETS			
Cash and balances with Central Bank of Cyprus	17	**25.931.937**	57.000.664
Mandatory deposits with Central Bank of Cyprus	17	**5.768.221**	5.843.530
Deposits with other banks	18	**31.944.863**	24.211.929
Loans and advances to customers	20	**260.984.078**	494.259.271
Deposits with related banks	21(a)	**174.677.032**	55.709.025
Available for sale financial assets	23(c)	-	4.889.196
Loans and receivables	24(b)	-	123.084.236
Equity investments at fair value through other comprehensive income	23(a)	**4.419.365**	-
Equity investments at fair value through profit or loss	23(b)	**6.434**	-
Other financial assets at amortised cost	24(a)	**150.366.162**	-
Investment in subsidiary	19	**1.709**	1.709
Property, plant and equipment	25	**10.385.582**	10.643.509
Investment property	26	**4.206.500**	4.206.500
Intangible assets	27	**4.717.612**	4.980.986
Other assets	28	**2.500.211**	3.191.981
Current income tax assets		**1.453.904**	1.453.904
Deferred income tax assets	16(b)	**6.268.900**	875.949
Total assets		**683.632.510**	790.352.389
LIABILITIES			
Deposits from other banks	29	**8.359.964**	9.737.010
Deposits and other customer accounts	30	**587.445.312**	572.689.610
Deposits from related banks	21(b)	**809.138**	13.406.712
Other liabilities	31	**10.373.669**	10.748.179
Deferred income tax liabilities	16(b)	**1.727.215**	1.735.014
Total liabilities		**608.715.298**	608.316.525
EQUITY			
Share capital	32	**51.300.000**	51.300.000
Revaluation reserves	33	**12.791.445**	12.027.475
Retained earnings		**10.825.767**	118.708.389
Total equity		**74.917.212**	182.035.864
Total liabilities and equity		**683.632.510**	790.352.389

The financial statements have been approved by the Board of Directors on 23 April 2019.

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Louka Katseli	Christos Christodoulou
Chairwoman	Chief Executive Officer
………………………	………………………
Mark Klerides	Yiannos Michael
Independent, Non-Executive Member	Chief Financial Officer

The notes on pages 18 to 111 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Revaluation reserve for financial assets at FVOCI	Retained earnings (1)	Total
	€	€	€	€	€	€
Balance at 1 January 2017	51.300.000	7.766.967	3.251.354	-	125.768.487	188.086.808
Comprehensive loss:						
Loss for the year	-	-	-	-	(7.060.098)	(7.060.098)
Other comprehensive income	-	415.299	593.855	-	-	1.009.154
Total comprehensive loss for the year	-	415.299	593.855	-	(7.060.098)	(6.050.944)
Balance at 31 December 2017	51.300.000	8.182.266	3.845.209	-	118.708.389	182.035.864
Effect of initial application of IFRS 9 as at 1 January 2018	-	-	(3.845.209)	3.845.209	(46.734.076)	(46.734.076)
Tax effect of initial application of IFRS 9	-	-	-	-	5.841.760	5.841.760
Restated balance at 1 January 2018	51.300.000	8.182.266	-	3.845.209	77.816.073	141.143.548
Comprehensive income:						
Profit for the year	-	-	-	-	3.009.694	3.009.694
Other comprehensive income for the year (Note 23)	-	-	-	763.970	-	763.970
Total comprehensive income for the year	-	-	-	763.970	3.009.694	3.773.664
Reduction in retained earnings in relation to CAC Coral transaction (2)	-	-	-	-	(70.000.000)	(70.000.000)
Balance at 31 December 2018	51.300.000	8.182.266	-	4.609.179	10.825.767	74.917.212

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

(2) The €70 million decrease in retained earnings is in relation to the transfer of a part of the Bank's Stage 3 loan portfolio to CAC Coral Ltd (related party). The net amount of loans transferred was €167,5 million in respect of which €97,5 million were settled in cash and the remaining €70 million were settled via the aforementioned retained earnings reduction .

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €	2017 €
Net cash from operating activities	35	**23.358.981**	29.853.918
Cash flows from investing activities			
Purchase of intangible assets	27	**(248.291)**	(413.708)
Purchase of property, plant and equipment	25	**(24.861)**	(104.006)
Purchase of Cyprus government bonds and treasury bills	24	**(453.965.940)**	(174.579.775)
Proceeds from disposal and maturity of Cyprus government bonds and treasury bills		**425.949.229**	146.575.887
Proceeds from sale of equity investment	37(v)	**1.581.327**	-
Dividend income received		**130.288**	189.144
Interest received on debt securities	24	**1.354.797**	1.354.760
Net cash used in investing activities		**(25.223.451)**	(26.977.698)
Cash flows from financing activities			
Proceeds from borrowed funds	37(iv)	**97.650.000**	-
Net cash from financing activities		**97.650.000**	-
Net increase in cash and cash equivalents		**95.785.530**	2.876.220
Credit losses on cash and cash equivalents		**734.814**	-
Cash and cash equivalents at beginning of the year		**136.754.768**	133.878.548
Cash and cash equivalents at end of the year	36	**233.275.112**	136.754.768

Non-cash transactions

For details of non-cash transactions refer to Note 37.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

1. GENERAL INFORMATION

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

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

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

During the current year the Bank adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. This adoption did not have a material effect on the accounting policies of the Bank with the exception of the following:

- IFRS 9 "Financial Instruments", and
- IFRS 15 "Revenue from contracts with customers".

As explained below, in accordance with the transition provisions of IFRS 9 and IFRS 15, the Bank has elected the simplified approach for the adoption of the standards. Accordingly, IFRS 9 and IFRS 15 were adopted without restating the comparative information. The comparative information is prepared in accordance with IAS 39 and IAS 18 and IAS 11, and the impact of adoption has been recognised in the opening retained earnings. IFRS 7 disclosures in comparative information are presented as in prior year financial statements.

The following table summarizes the impact of adoption of the new standard for each individual line item of the balance sheet. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Impact on the balance sheet

	31 December 2017 under IAS 39 €	Effect of adoption of IFRS 9 €	1 January 2018 under IFRS 9 €
Loans and advances to customers	494.259.271	(46.334.405)	447.924.866
Deposits with other banks	24.211.929	(161.228)	24.050.701
Other liabilities	(131.703)	(238.443)	(370.146)
Deferred income tax assets	875.949	5.841.760	6.717.709
Retained earnings	118.708.389	(40.892.316)	77.816.073

(i) IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

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

(i) IFRS 9 "Financial instruments" (continued)

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (either FVTPL or FVPL) and those to be measured at amortized cost. The determination is made at initial recognition. For debt financial assets the classification depends on the entity's business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For equity financial assets it depends on the entity's intentions and designation.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

IFRS 9 also introduces a single impairment model applicable for debt instruments at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debts based on expected credit losses (ECL), rather than incurred credit losses as required by IAS 39.

For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

With the introduction of IFRS 9 "Financial Instruments", the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognized in profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedge ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Bank has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Bank has chosen to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) according to which the capital impact of the changes introduced by IFRS 9 at the beginning of 2018, is 'phased in' over a 5-year period. During the 'phased-in' 5-year period the IFRS9 impairment provisions are added back to CET1 capital according to the following weighting factors: 0.95, 0.85, 0.7, 0.5 and 0.25 in 2018, 2019, 2020, 2021 and 2022 respectively.

The Bank's new accounting policies following the adoption of IFRS 9 on 1 January 2018 are set out in Note 3.

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

(i) IFRS 9 "Financial instruments" (continued)

In accordance with the transition provisions in IFRS 9, the Bank has elected the simplified transition method for adopting the new standard. Accordingly, the effect of transition to IFRS 9 was recognised as at 1 January 2018 as an adjustment to the opening retained earnings. In accordance with the transition method elected by the Bank for implementation of IFRS 9 the comparatives have not been restated but are stated based on the previous policies which comply with IAS 39. Consequently, the revised requirements of IFRS 7 "Financial Instruments: Disclosures" have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

On 1 January 2018 for debt instruments held by the Bank, management has assessed which business models apply to the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI test). In addition separate assessment for equity instruments held by the Bank was performed, in respect of whether they are held for trading or not. As a result of both assessments management has classified its debt and equity instruments into the appropriate IFRS 9 categories.

As a result of the adoption of IFRS 9 the Bank revised its impairment methodology for each class of assets subject to the new impairment requirements. From 1 January 2018, the Bank assesses on a forward looking basis the expected credit losses associated with its financial assets at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk and whether the debt instruments qualify as low credit risk and whether the debt investments qualify as low credit risk.

For revolving credit facilities, the Bank determines the period over which ECL should be computed, on the basis of historical experience with respect to the typical average life of such facilities.

The Bank has the following types of assets that are subject to IFRS 9's new expected credit loss model: Loans and advances to customers, Deposits with Banks, Cash Balances with Central Bank, financial assets at amortised cost, loans commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

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

(i) IFRS 9 "Financial instruments"

The Bank has adopted the general expected credit loss model for Loans and advances to customers, Deposits with Banks, Cash Balances with Central Bank and Financial Assets at amortised cost.

Based on the assessment performed by management, the incremental impairment loss as of 1 January 2018 amounted to €46.734.076. Accordingly, the impact of adoption of IFRS 9 on the Bank's retained earnings as of 1 January 2018 amounted to €46.734.076 gross of deferred tax and €40.892.316 net of deferred tax. The following table reconciles the carrying amounts of financial instruments, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect of IFRS 9				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Re-measurement		Reclassification		
	IAS 39	IFRS 9		ECL	Other	Mandatory	Voluntary	
			€	€	€	€	€	€
Investments in equity securities								
Listed equity securities	AFS (available for sale)	FVTPL (mandatorily)	10.168	-	-	-	-	10.168
Listed equity securities	AFS (available for sale)	FVOCI (designated)	2.682.834	-	-	-	-	2.682.834
Unlisted equity securities	AFS (available for sale)	FVOCI (designated)	2.196.194	-	-	-	-	2.196.194
Total investments in equity securities			4.889.196	-	-	-	-	4.889.196
Other financial assets								
Loans and advances to customers	L&R (Loans and receivables)	AC (amortised cost)	494.259.271	(46.334.405)	-	-	-	447.924.866
Deposits with other banks	L&R	AC	24.211.929	(161.228)	-	-	-	24.050.701
Deposits with related banks	L&R	AC	55.709.025	-	-	-	-	55.709.025
Balances with Central Bank of Cyprus	L&R	AC	50.355.929	-	-	-	-	50.355.929
Government bonds	L&R	AC	123.084.236	-	-	-	-	123.084.236
Total other financial assets			747.620.390	(46.495.633)	-	-	-	701.124.757
Total financial assets			752.509.586	(46.495.633)	-	-	-	706.013.953
Deposits from other banks	AC	AC	9.737.010	-	-	-	-	9.737.010
Deposits and other customer accounts	AC	AC	572.689.610	-	-	-	-	572.689.610
Deposits from related banks	AC	AC	13.406.712	-	-	-	-	13.406.712
Total other financial liabilities			595.833.332	-	-	-	-	595.833.332

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

(i) IFRS 9 "Financial instruments" (continued)

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

		Effect	
	Provision under IAS 39 or IAS 37 at 31 Dec 2017	**Remeasurement from incurred to expected loss**	**Credit loss allowance under IFRS 9 at 1 January 2018**
	€	**€**	**€**
Loans and advances to customers	252.904.066	46.334.405	299.238.471
Deposits with other banks	-	161.228	161.228
Other liabilities	131.703	238.443	370.146
	253.035.769	46.734.076	299.769.845

The impact of these changes on the Bank's equity is as follows:

	AFS reserve	FVOCI reserve	Retained earnings	Total
	€	€	€	€
At 31 December 2017 – IAS 39	3.845.209	-	118.708.389	122.553.598
Reclassification of non-trading equities from AFS to FVOCI	(3.845.209)	3.845.209	-	-
Recognition of ECL under IFRS 9 for:				
- Loans and advances to customers			(46.334.405)	(46.334.405)
- Deposits with other banks			(161.228)	(161.228)
- Other liabilities			(238.443)	(238.443)
- Deferred tax on ECL	-	-	5.841.760	5.841.760
Total impact	**(3.845.209)**	**3.845.209**	**(40.892.316)**	**(40.892.316)**
At 1 January 2018 – IFRS 9	**-**	**3.845.209**	**77.816.073**	**81.661.282**

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

(i) IFRS 9 "Financial instruments" (continued)

- *Investments in equity securities previously classified as available-for-sale (AFS):*

The Bank elected to present in OCI changes in the fair value of most its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of €4.879.028 as at 1 January 2018 were reclassified from available-for-sale financial assets to financial assets at FVOCI. Equity investments previously classified as available-for-sale that are held for trading are classified as financial assets at FVTPL. As a result, assets with fair value of €10.168 as at 1 January 2018 were reclassified from available-for-sale financial assets to financial assets at FVTPL.

Other financial instruments:

For all other financial assets management assessed that the Bank's business model for managing the assets is "hold to collect" and these assets meet SPPI tests. As a result all other financial assets were classified as financial assets at amortised cost and reclassified from the category "loans and receivables" under IAS 39, which was "retired". Previously under IAS 39 these financial assets were also measured at amortised cost. Thus there was no impact of adoption of IFRS 9 as of 1 January 2018, other than in relation to expected credit loss impairment as of 1 January 2018 as stated above and further explained below.

At 31 December 2017, all of the Bank's financial liabilities were carried at amortised cost. Starting from 1 January 2018 the Bank's financial liabilities continue to be classified at amortised cost.

The assessment of the impact of adoption of IFRS 9 on the Bank's accounting policies required management to make certain critical judgments in the process of applying the principles of the new standard. The judgments that had the most significant effect on management's conclusion are disclosed in Note 5.

Classification and measurement

The Bank uses the following measurement categories for financial assets:

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

All loans and advances to customers are classified within the hold to collect business model, and are accounted for at amortised cost.

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

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

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

- Hold to collect contractual cash flows.
- Hold to collect contractual cash flows and sell. The objective of this business model is meeting everyday liquidity needs and such objective is achieved by both collecting contractual cash flows and selling debt instruments. Assets within this business model are not sold with the intention of short-term profit taking.

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

(i) IFRS 9 "Financial instruments" (continued)

- Held for trading. Under this business model, the Bank actively manages the instrument in order to realise fair value gains arising from changes in credit spreads and yield curves.
- Held and managed on a fair value basis. Refers to assets that are managed by the Bank on a fair value basis without the intent to sell them in the near future.
- Designated on a fair value basis. Refers to assets that are managed by the Bank on a fair value basis in order to avoid a measurement mismatch and without the intent to sell them in the near future.

Impairment

Default definition
The Bank has aligned the definition of default for financial reporting with the definition of default as per Regulation (EU) No 575/2013 of the European Parliament and of the Council according to which default occurs when the borrower is unlikely to pay in full its credit obligations to the Bank without recourse by the Bank to actions such as realizing security or the borrower is more than 90 days past due on any material credit obligation to the Bank.

The Bank has aligned the definition of default for financial reporting purposes, with the Non- Performing Exposures (NPE) definition as per the European Banking Authority's definition (EBA Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures, as adopted by the Commission Implementing Regulation (EU) 2015/227 of 9 January 2015, "EBA ITS").

Non Performing Exposures are those that satisfy at least one of the following criteria:

a) are classified as impaired in accordance with applicable accounting framework;
b) are classified as defaulted for regulatory purposes in accordance with Regulation (EU) No 575/2013;
c) have material amounts, as defined by the Central Bank of Cyprus, which are more than 90 days days past due;
d) have been classified as a Forborne Non Performing Exposure according to the EBA ITS;
e) When the Bank has on-balance sheet exposures to a debtor that are past due by more than 90 days the gross carrying amount of which represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, all on and off-balance sheet exposures to that debtor shall be considered as non-performing;
f) A commitment shall be regarded as a non-performing exposure for its nominal amount if, when withdrawn or otherwise used, it would lead to exposures that present a risk of not being paid back in full without realisation of collateral;
g) Financial guarantees given shall be regarded as non-performing exposures for their nominal amount when the financial guarantee is at risk of being called by the counterparty ("guaranteed party"), including, in particular, when the underlying guaranteed exposure meets the criteria to be considered as non-performing.

The Bank, therefore, considers that all non-performing exposures, as per EBA's criteria for NPE classification, to also be in default and hence Stage 3 (credit-impaired). The definition of default under IFRS 9 is consistent with the one used for internal credit risk management purposes, i.e. all exposures classified as NPEs are considered as credit impaired.

The definitions of credit-impaired and default are aligned so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

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

(i) IFRS 9 "Financial instruments" (continued)

Impairment (continued)

Default definition (continued)

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

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

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

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

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

ECL measurement
The Bank recognizes an ECL allowance at initial recognition on financial assets classified and measured at amortised cost and FVTOCI (including POCI). For all such exposures, which are not individually assessed, an ECL allowance is recognized on a collective basis. All Stage 1 and Stage 2 exposures are collectively assessed.

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

(i) IFRS 9 "Financial instruments" (continued)

ECL measurement (continued)

The ECL calculations are based on the following factors:

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

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

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

The Bank applies three scenarios (i.e. baseline, optimistic, pessimistic), with the aim of achieving the objective of measuring ECL in a way that reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. The optimistic and pessimistic scenarios do not have to represent best and worst- case scenarios, respectively. For each scenario, the associated ECL is multiplied by the probability weight allocated to that scenario. The macroeconomic scenarios used for measuring ECL are the same with the ones used for evaluating SICR. The macroeconomic variables affecting the level of ECL (either through collective or individual assessment) are presented in Note 5.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from contracts with customers" and related amendments superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The new standard replaces the separate models for recognition of revenue for the sale of goods, services and construction contracts under previous IFRS and establishes uniform requirements regarding the nature, amount and timing of revenue recognition. IFRS 15 introduces the core principle that revenue must be recognised in such a way to depict the transfer of goods or services to customers and reflect the consideration that the entity expects to be entitled to in exchange for transferring those goods or services to the customer; the transaction price.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(ii) IFRS 15 "Revenue from Contracts with Customers" (continued)

The new standard provides a principle-based five-step model that must be applied to all categories of contracts with customers. Any bundled goods or services must be assessed as to whether they contain one or more performance obligations (that is, distinct promises to provide a good or service). Individual performance obligations must be recognised and accounted for separately and any discounts or rebates in the contract price must generally be allocated to each of them.

IFRS 15 "Revenue from contracts with customers" and related amendments superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The new standard replaces the separate models for recognition of revenue for the sale of goods, services and construction contracts under previous IFRS and establishes uniform requirements regarding the nature, amount and timing of revenue recognition. IFRS 15 introduces the core principle that revenue must be recognised in such a way to depict the transfer of goods or services to customers and reflect the consideration that the entity expects to be entitled to in exchange for transferring those goods or services to the customer; the transaction price.

IFRS 15 provides further guidance on the measurement of revenue arising from contracts that have variable consideration due to discounts, rebates, consignment inventories etc. In accordance with the new standard, when the consideration varies, an entity includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Further, costs incurred to secure contracts with customers and certain costs incurred to fulfil such contracts have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The amendments to IFRS 15 clarify how to identify a performance obligation in a contract, how to determine whether a Bank is a principal (that is, the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided) and how to determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a Bank when it first applies the new standard.

The adoption of IFRS 15 had no impact on opening retained earnings of the Bank.

The Bank's new accounting policies following adoption of IFRS 15 at 1 January 2018 are set out below in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the years presented, unless otherwise stated. The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented in Note 41.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

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

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2018 have been adopted by the EU through the endorsement procedure established by the European Commission.

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

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

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

The financial statements are prepared on a historical cost basis, except for land and buildings, investment properties, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Foreign currency translation

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Recognition and measurement

Revenue represents the amount of consideration to which the Bank expects to be entitled in exchange for transferring the promised services to the customer, excluding amounts collected on behalf of third parties (for example, value-added taxes); the transaction price. The Bank includes in the transaction price an amount of variable consideration as a result of rebates/discounts only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimations for rebates and discounts are based on the Bank's experience with similar contracts.

The Bank recognises revenue when the parties have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations, the Bank can identify each party's rights and the payment terms for the services to be transferred, the contract has commercial substance (i.e. the risk, timing or amount of the Bank's future cash flows is expected to change as a result of the contract), it is probable that the Bank will collect the consideration to which it will be entitled in exchange for the services that will be transferred to the customer and when specific criteria have been met for each of the Bank's contracts with customers.

The Bank bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In evaluating whether collectability of an amount of consideration is probable, the Bank considers only the customer's ability and intention to pay that amount of consideration when it is due.

Identification of performance obligations

The Bank assesses whether contracts that involve the provision of a range of services contain one or more performance obligations (that is, distinct promises to provide a service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A service that is promised to a customer is distinct if the customer can benefit from the service, either on its own or together with other resources that are readily available to the customer (that is the service is capable of being distinct) and the Bank's promise to transfer the service to the customer is separately identifiable from other promises in the contract (that is, the service is distinct within the context of the contract).

Fee and commission income

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, guarantee issue fee and agency fee income whereby the Bank acts as an agent of a third party in entering and completing a transaction on pre-determined terms and conditions.

Fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for processing payment transactions, fees for cash settlements and collection of cash disbursements.

Rental income

Rental income arising on operating leases is recognised on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Initial recognition of financial instruments

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date on which the asset is delivered to the Group. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument. Any change in fair value of the assets classified as financial assets at fair value through profit or loss or at other comprehensive income to be received during the period between the trade date and the settlement date is recognised in profit or loss and in OCI, respectively. However changes in the fair value of assets carried at amortized cost between trade date and settlement date are not recognized.

Financial assets – Classification

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Bank may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For investments in equity instruments that are not held for trading, classification will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – Classification (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Financial assets - Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Bank commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

Financial assets – Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments
Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. The Bank classifies all of its debt instruments at amortised cost.

Under the amortised cost measurement category, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income'. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement. Financial assets measured at amortised cost (AC) comprise: cash and cash equivalents, bank deposits with original maturity over 3 months, Loans and advances to customers, Deposits with Banks, Cash Balances with Central Bank and Financial Assets at amoritsed cost.

Equity instruments
The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment, any related balance within the FVOCI reserve is reclassified to retained earnings. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. Dividends from such investments continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "other gains/(losses)" in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – impairment – credit loss allowance for Expected Credit Loss (ECL)

From 1 January 2018, the Bank assesses on a forward-looking basis the ECL for all financial assets measured at AC and for the exposure arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "credit losses on other financial assets" and "credit gains/losses on loans and advances to customers".

Debt instruments, loans and advances to customers and other financial assets measured at AC are presented in the balance sheet net of the allowance for ECL. For loan commitments and financial guarantee contracts, a separate provision for ECL is recognised as a liability in the balance sheet.

For debt instruments at FVOCI, an allowance for ECL is recognised in profit or loss and it affects fair value gains or losses recognised in OCI rather than the carrying amount of those instruments.

For all financial assets that are subject to impairment under IFRS 9, the Bank applies the general approach – three stage model for impairment. The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 39, Credit risk section for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 39, Credit risk section.

Financial assets – Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – modification

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents for the purposes of the statement of cash flows, consist of balances with less than three months maturity, including cash, unrestricted balances with central bank and amounts due from other banks.

Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Interest income and expense calculated using the effective interest method

Interest income for all financial assets carried at amortised cost and all debt financial assets carried at fair value through other comprehensive income is recognised in the profit or loss using the effective interest method. Interest expense for all interest bearing financial instruments is recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or a shorter period, if appropriate, to the gross carrying amount of a financial asset (i.e. excluding future credit losses) or to the amortised cost of a financial liability. The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Interest income and expense calculated using the effective interest method (continued)

The effective interest calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit impaired at initial recognition, the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial assets; and

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired (or "stage 3"), for which interest income is calculated using the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

When applying the effective interest method, the Bank amortises any fees, points paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the financial instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.

Transaction costs include fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are recognised as a financial liability at the time the guarantee is issued. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee in other income in profit or loss.

At the end of each reporting period, the guarantee is subsequently at the higher of:

- the amount of the loss allowance determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments;* and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Credit related commitments

The Bank issues commitments to provide loans. Commitments to provide loans are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. Loan commitments provided by the Bank are measured as the amount of the loss allowance calculated under IFRS 9.

At the end of each reporting period, the commitments are measured at

(i) the remaining unamortised balance of the amount at initial recognition, plus
(ii) the amount of the loss allowance determined based on the expected credit loss model.

For loan commitments (where those components can be separated from the loan), a separate provision for ECL is recognised as a liability in the statement of financial position. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Financial liabilities – measurement categories

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

Sales and repurchase agreements

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

Property, plant and equipment

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

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

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

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

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

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

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

The annual depreciation rates used are as follows:

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

No depreciation is charged on land.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Investment property

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

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

Computer software

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non financial assets

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

Employee benefits

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

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

Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Current and deferred income tax

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current and deferred income tax (continued)

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

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

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

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

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

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

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

Special levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on 31st December, 31st March, 30th June and 30th September on qualifying deposits held by each credit institution. The special levy is included in other operating expenses, Note 15.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts. These instruments are initially recognised at fair value 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.

Provisions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Share capital

Ordinary shares are classified as equity.

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

Other liabilities

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

Deposits from banks and deposits from customers

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

Investments in subsidiaries

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

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

Related party transactions

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

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where applicable, comparative figures have been adjusted to conform with changes in presentation in the current year. Further details are disclosed in Note 2.

4. NEW ACCOUNTING PRONOUNCEMENTS

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

- **IFRS 16 "Leases"** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank shall apply the modified retrospective approach, where the right of use asset is set equal to the amount of the lease liability upon adoption, and will not restate the comparative information. The Bank plans to apply the practical expedient to grandfather the lease definition on transition to IFRS 16 and not reassess whether a contract is or contains a lease. Therefore, at transition date (i.e. 1 January 2019), the Bank shall apply IFRS 16 solely on contracts that were previously identified as leases based on IAS 17 and IFRIC 4. In addition, the Bank has decided to make use of the relief options provided for leases of low value assets and short-term leases. The Bank has estimated that the application of IFRS 16 on 1 January 2019 will result to the recognition of a lease liability which has been estimated at €5 million (0,1 million relates to a site restoration provision) and a right of use asset which has been estimated at €5 million.

  The most significant estimate used in the measurement of the lease liability relates to the interest rate used for discounting the lease payments to their present value as of the date of initial application. The Bank used an Internal Borrowing Rate (IBR) as of 1 January 2019, which was estimated with a built-up approach, using market observable information relating to the parent bank's covered Bond maturing in 2020 and the European Financial Institutions yield curve for the equivalent credit rating.

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

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

- **Amendments to References to the Conceptual Framework in IFRS Standards** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)*. The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance—in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
- **Amendments to IFRS 9: Prepayment Features with Negative Compensation** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). For financial instruments which contain a prepayment amount that may result in negative compensation, the Amendments propose that such a financial asset would be eligible to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. The Bank is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.
- **Amendments to IAS 1 and IAS 8: Definition of materiality** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).* The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not expected to be material.

** Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.*

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements the management of the Bank is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates and may cause a material adjustment to the carrying amounts of assets and liabilities.

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected credit loss measurement (ECL)

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 39. The following components have a major impact under each segment on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Expected credit loss measurement (continued)

In assessing LGDs for secured exposures, the Bank considers the range of relevant risk drivers, including: collateral type, geography (location of the collateral) and seniority of the lending exposure. Management exercises its judgement in determining the relevant valuation collateral haircuts used to determine the collateral values for LGD calculation and applied to consider liquidity and quality of pledged assets. When the collateral values exceed the individual credit exposures, the minimum LGD floor is applied for the measurement of ECL.

In its collective assessment model, the Bank uses loan to value (LTV) buckets in order to assign an LGD for each bucket. As at 31 December 2018, if all loans were downgraded by 1 LTV bucket, this would have resulted in additional expected credit losses on loans and advances to customers of €0,7 million.

Macroeconomic Scenarios used in ECL measurement

The Bank determines the ECL, which is a probability-weighted amount by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Macroeconomic inputs and weights per scenario are based on external market data.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Bank's Management. No qualitative adjustments or overlays were made as at the reporting date.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Bank's ECL as a whole is particularly sensitive. The Bank uses three different economic scenarios.

The most significant year-end assumptions relating to macroeconomic scenarios used for the ECL estimate or the year 2018 are set out below. The scenarios "base", "optimistic" and "adverse" were used for all portfolios.

		Year					
		2018	2019	2020	2021	2022	2023
Mortgages and Consumer loans							
				€ Billions			
Consumption	Base	3.3	3.4	3.4	3.5	3.6	3.6
	Optimistic	3.3	3.5	3.5	3.6	3.6	3.6
	Adverse	3.2	3.2	3.3	3.4	3.5	3.5
				%			
Harmonised Index of Consumer Prices (HICP)	Base	0,7	1,1	1,8	1,9	1,9	1,9
	Optimistic	1,9	1,5	1,8	1,4	1,6	1,6
	Adverse	-1,8	-0,2	1,8	2,7	3,4	3,4
				%			
Unemployment	Base	10,7	9,9	9,2	8,5	7,7	7,7
	Optimistic	9,4	9,3	9,3	9,0	8,3	8,3
	Adverse	13,2	11,2	9,2	7,7	6,2	6,2
Corporate loans							
				%			
Gross Domestic Product (GDP)	Base	2,6	2,4	2,2	2,2	2,2	2,2
	Optimistic	3,9	3,0	2,1	1,7	1,6	1,6
	Adverse	0,1	1,1	2,2	3,0	3,7	3,7
				%			
Commercial Property Price Index (CPPI)	Base	1,2	2,0	2,5	2,9	3,2	3,2
	Optimistic	2,5	2,6	2,4	2,4	2,6	2,6
	Adverse	-1,3	0,7	2,5	3,7	4,7	4,7

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Macroeconomic Scenarios used in ECL measurement (continued)

The weightings assigned to each economic scenario as at 1 January 2018 and 31 December 2018 were as follows:

	Base	**Optimistic**	**Adverse**
Loans and Advances to Customers	45%	35%	20%

As at 31 December 2018, if the scenaria weights were changed as per the table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,1 million.

Base	**Optimistic**	**Adverse**
45%	20%	35%

As at 31 December 2018, if the scenaria weights were changed as per the below table below, this would have resulted in additional expected credit losses on the loans and advances to customers of €0,1 million.

Base	**Optimistic**	**Adverse**
55%	20%	25%

As at 31 December 2018, if unemployment and consumption were changed as per the below tabulated scenaria, this would have resulted in additional/(reduced) expected credit losses on the mortgages and consumer loan portfolios as per the table below:

Mortgages and Consumer loans				
		Consumption		
€		**2,2%**	**No Change**	**-2,2%**
Unemployment	**-5%**	-	15.119	-
	No change	(208)	-	(4.924)
	5%	-	-	-

As at 31 December 2018, if unemployment and Harmonised Index of Consumer Prices (HICP) were changed as per the below tabulated scenaria, this would have resulted in additional/(reduced) expected credit losses on the mortgages and consumer loans and advances to customers as the table below:

Mortgages and Consumer loans				
		HICP		
€		**1,7%**	**No Change**	**-1,7%**
Unemployment	**-5%**	(11.240)	-	-
	No change	-	-	-
	5%	-	-	45.847

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Macroeconomic Scenarios used in ECL measurement (continued)

As at 31 December 2018, if Gross Domestic Product (GDP) and Commercial Property Price Index (CPPI) were changed as per the below tabulated scenaria, this would have resulted in additional/(reduced) expected credit losses on the corporate portfolios as per the table below:

Corporate loans				
		CPPI		
€		3%	No Change	-3%
GDP	2%	(4.270)	-	-
	No change	-	-	-
	-2%	-	-	550.360

Significant increase in credit risk ("SICR")

IFRS 9 does not include a definition of significant increase in credit risk. The Bank assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The determination of the relevant thresholds to determine whether a significant increase in credit risk has occurred, involves management judgement.

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of non-financial factors used for the determination of the internal credit risk of the borrower.

The table below summarises the quantitative measure of a SICR trigger which varies depending on the credit quality at origination as follows, applied on 1 January 2018 and 31 December 2018:

SICR for Lifetime PD

Loans and advances to customers	Lifetime PD at Initial Recognition	Multiple applied on origination PD to arrive at SICR trigger
Consumer Loans	<= 5%	10.3
	> 5% and <= 15%	3.8
Mortgages	<= 6%	1.7
	> 6% and <= 10%	3.0
	> 10% and <= 16%	2.4
Corporate Loans	<= 6.5%	5.2
	> 6.5% and <= 10.5%	1.4
	> 10.5% and <= 14%	1.4
	> 14% and <= 20%	2.3

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Significant increase in credit risk ("SICR")

SICR for 12 Month PD

Loans and advances to customers	12 Month PD at Initial Recognition	Multiple applied on origination PD to arrive at SICR trigger
Consumer Loans	<= 1.5%	23.9
	> 14% and <= 15%	3.8
Mortgages	<= 3%	9.9
Corporate Loans	<= 3%	5.9
	> 4% and <= 6%	4.7

As at 31 December 2018, the Bank has performed sensitivity analysis on its SICR thresholds which has resulted in no material impact on expected credit losses on loans and advances to customers.

Expected lifetime of revolving facilities

Judgement is exercised on the measurement period of expected lifetime for revolving facilities. The Bank exercises judgement in determining the period over which ECL should be computed, on the basis of historical experience with respect to the typical average life of such facilities.

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment.

When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in a stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Business model assessment (continued)

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Provisions for impairment of loans and advances – applicable up to 31 December 2017

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

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers at a group level, or national or local economic conditions that correlate with defaults on assets in the Bank. Management used estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience. Accordingly, as at 31 December, the Bank had appropriately recalibrated the assumptions pertaining to the timing of future cash flows to take into consideration all relevant market information and past experience available as at that date.

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

Fair value of financial instruments

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

Certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

More information on changes in the fair value of bonds, shares and other financial instruments is disclosed in Note 39.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Income taxes

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

If the final result of the tax statement of the Bank varied by 30% (2017: 30%) from management's expectations due to the uncertainties in the tax treatment of these issues, there would be no significant change in the current tax liabilities because the Bank maintains a significant amount of tax losses which can be utilized against it.

Deferred tax assets are recognised by the Bank in respect of tax losses to the extent that is probable that future taxable profits will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in material adjustment to the carrying amount of deferred tax assets.

The assumptions with greater influence on deferred tax are disclosed in Note 16.

Fair value of properties held for own use and investment properties

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

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

If the estimated value per square meter used in the calculations for the properties held for own use was reduced by 15% the value of the properties would be €1,5m (2017: €1,5m) lower, with an equivalent impact in the income statement.

If the estimated value per square meter used in the calculations for investment properties was reduced by 15% the value of the building would have been €0,6m (2017: €0,6m) lower, with an equivalent impact in the income statement.

More information on inputs used is disclosed in Notes 25 and 26.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

6. INTEREST INCOME

	2018 €	2017 €
Loans and advances to customers at amortised cost	**16.387.979**	24.249.993
Deposits with banks and central bank at amortised cost	**960.829**	330.659
Investment in bonds at amortised cost (Note 24)	**580.937**	1.280.873
	17.929.745	25.861.525

Interest income from loans and advances to customers includes interest on the net carrying amount of impaired loans and advances to customers amounting to €4.595.688 (2017: €9.158.772).

7. INTEREST EXPENSE

	2018 €	2017 €
Deposits and other customer accounts at amotised cost	**2.090.872**	2.366.258
Deposits from banks at amortised cost	**561.427**	1.229.868
	2.652.299	3.596.126

8. FEE AND COMMISSION INCOME

	2018 €	2017 €
Fees	**1.188.155**	1.216.315
Commissions	**3.495.909**	3.752.407
	4.684.064	4.968.722

The Bank's fee and commission income are primarily recognised at a point in time.

9. NET FOREIGN EXCHANGE GAINS

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

10. OTHER INCOME

	2018 €	2017 €
Dividend income	**130.288**	189.144
Other income	**744.293**	755.962
	874.581	945.106

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

11. OTHER LOSSES

	2018 €	2017 €
Loss on revaluation of investment property	-	263.500
Fair value loss on equity investments classified as fair value through profit or loss	3.733	-
	3.733	263.500

12. OTHER GAINS

	2018 €	2017 €
Gain from sale of equity investment (Note 23(c) & Note 37(v))	**357.694**	-

13. IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

	2018 €	2017 €
Impairment loss on balances with banks – ECL	734.814	-
Impairment loss on other financial assets at amortised cost – ECL	122.190	-
	857.004	-

14. STAFF COSTS

	2018 €	2017 €
Salaries	11.321.419	10.980.416
Employer's contributions	1.549.021	1.466.287
Provident fund contributions	1.107.684	1.088.216
Other staff expenses	487.138	523.124
	14.465.262	14.058.043

The number of staff employed by the Bank as of 31 December 2018 was 260 (2017: 261). The average number of staff employed by the Bank for 2018 was 261 (2017: 260).

The bank operates a defined contribution plan.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

15. OTHER OPERATING EXPENSES

	2018 €	2017 €
Occupancy costs	**585.487**	566.440
Rentals	**772.467**	754.723
Advertising and marketing	**323.360**	319.033
Repairs and maintenance	**795.759**	883.118
Other operating expenses	**1.121.758**	2.550.332
Special levy on deposits (1)	**873.175**	867.509
	4.472.006	5.941.155

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

The total fees charged by the Bank's statutory auditor for the statutory audit of the annual financial statements of the Bank for the year ended 31 December 2018 amounted to €58.000 exclusive of VAT (2017: €58.000 exclusive of VAT). The total fees charged by the Bank's statutory auditor for the year ended 31 December 2018 for other assurance services amounted to €7.000, exclusive of VAT (2017: €7.000, exclusive of VAT) and for tax advisory services amounted to €6.000, exclusive of VAT (2017: €6.000, exclusive of VAT).

16. INCOME TAX

(a) Tax recognised in profit or loss:

	2018 €	2017 €
Current tax:		
- Corporation tax	-	(79.735)
Withholding tax	**90.768**	130.705
Total current tax	**90.768**	50.970
Deferred tax charge/(credit)	**441.010**	(872.380)
Total income tax charge/(credit)	**531.778**	(821.410)

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

	2018 €	2017 €
Profit/(loss) before tax	**3.541.472**	(7.881.508)
Tax calculated at the applicable corporation tax rate of 12,5%	**442.684**	(985.188)
Tax effect of expenses not deductible for tax purposes	**220.029**	256.844
Tax effect of allowances and income not subject to tax	**(221.703)**	(144.036)
Withholding tax	**90.768**	130.705
Overprovision of prior year taxes	-	(79.735)
Income tax expense/(credit)	**531.778**	(821.410)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

16. INCOME TAX (continued)

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

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

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

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

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

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

(b) Deferred income tax assets and liabilities

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

Deferred income tax liabilities

	Difference between depreciation and wear and tear allowance €	Revaluation of land and buildings €	Total €
At 1 January 2017	405.510	1.325.936	1.731.446
Charged to:			
Profit or loss	3.568	-	3.568
At 31 December 2017/1 January 2018	409.078	1.325.936	**1.735.014**
(Credited) to:			
Profit or loss	(7.799)	-	**(7.799)**
At 31 December 2018	401.279	1.325.936	**1.727.215**

16. INCOME TAX (continued)

(b) Deferred income tax assets and liabilities (continued)

Deferred income tax assets

	Tax losses €	Total €
At 1 January 2017	-	-
Credited to:		
Profit or loss	875.949	875.949
At 31 December 2017	875.949	875.949
Adjustment on adoption of IFRS 9 – recognised against opening retained earnings	5.841.760	5.841.760
At 1 January 2018 – adjusted for impact of IFRS 9	6.717.709	6.717.709
Charged to:		
Profit or loss	(448.809)	(448.809)
At 31 December 2018	**6.268.900**	**6.268.900**

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The assessment of the recognition of a deferred tax asset is a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period. The Bank performed its assessment for the recoverability of the deferred tax asset as at 1 January 2018 and 31 December 2018 taking into account the Bank's actual and historic performance, the key objectives of the Bank's strategy, the macroeconomic environment in Cyprus, the impact of tax legislations enacted as at the reporting date and the detailed financial business plan approved by the Board, up to the end of 2023.

The financial projections have taken into account the key objectives of the Bank's strategy which are set out below:

- Manage the level of NPEs loans;
- Maintain an appropriate capital position by internally generating capital;
- Expansion in the Cyprus market; and
- Deliver value to its shareholder.

The key assumptions taken into consideration, amongst others, include the following:

- Increase in new loan originations and increase in market share;
- Improvement in net interest income, mainly driven by the increase of loans to deposits ratio, reduction in the deposits cost and management of liquidity surplus;
- Increase in fee and commission income; and
- Sustainment of the cost of risk, supported by asset quality improvement and growth of the Cyprus economy.

The above assumptions are based on both internal and external information for attributing a value to each key assumption in the deferred tax asset forecasts.

The internal key variables include, amongst others, the Bank's strategy, plans and planned actions for (i) expansion of certain business lines and income streams, (ii) capital and liquidity management, (iii) cost management, (iv) cost of funding and (v) pricing of deposits and loans.

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16. INCOME TAX (continued)

(b) Deferred income tax assets and liabilities (continued)

Deferred income tax assets (continued)

External key variables mainly include the interest rate evolution which impacts the business activity of the Bank, the Cypriot macroeconomic performance unemployment levels, tourist industry and the changes in the regulatory framework.

The recoverability assessment performed at 1 January 2018 and 31 December 2018 did not result in an impairment loss.

The Bank has performed sensitivity analysis as at 1 January 2018 and 31 December 2018 on the following key assumptions of DTA recoverability assessment for years 2019-2023. The table below shows that there is no impact on DTA carrying value from the below described sensitivity analysis.

	Impact on deferred tax asset carrying amount 2018 €
Key assumption	
Reduction of yield on customer loans and advances by 20 bps	-
Increase in cost of customer deposits by 20 bps	-
Increase of ECL cost by 20 bps on gross loans	-
Increase of yield on customer loans and advances by 20 bps	-
Lower new loans origination by 20% of the forecasted growth	-

17. CASH, BALANCES AND MANDATORY DEPOSITS WITH CENTRAL BANK OF CYPRUS

	2018 €	2017 €
Cash in hand	**12.951.446**	12.488.265
Balances with the Central Bank of Cyprus:		
- due within three months	**18.760.843**	50.355.929
Total gross	**31.712.289**	62.844.194
ECL	**(12.131)**	-
Total: net of ECL	**31.700.158**	62.844.194

Cash and balances with central banks are classified as current.

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

Analysed as:

	2018 €	2017 €
Cash and balances with Central Bank of Cyprus	**25.931.937**	57.000.664
Mandatory deposits with Central Bank of Cyprus	**5.768.221**	5.843.530
	31.700.158	62.844.194

18. DEPOSITS WITH OTHER BANKS

	2018 €	2017 €
Interbank accounts	**25.373.956**	24.211.929
Money market placements	**6.707.561**	-
Total gross	**32.081.517**	24.211.929
ECL	**(136.654)**	-
Total: net of ECL	**31.944.863**	24.211.929

The maturity of the above balances is presented below:

	2018 €	2017 €
Due within three months	**31.906.755**	24.045.079
Between three months and one year	**174.762**	166.850
Total gross	**32.081.517**	24.211.929
ECL	**(136.654)**	-
Total: net of ECL	**31.944.863**	24.211.929

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

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

Deposits with other banks are classified as "financial assets at amortised cost".

19. INVESTMENT IN SUBSIDIARY

The subsidiary company and its principal activity are described below:

Name	Participation	Principal activities	2018 €	2017 €
National Securities Cyprus Limited	**100%**	Dormant company	**1.709**	1.709

National Securities Cyprus Limited is registered and operates in Cyprus.

20. LOANS AND ADVANCES TO CUSTOMERS

	2018 €	2017 €
Loans and advances to customers – at amortised cost	**276.860.425**	746.276.295
Hire purchase and leasing debtors – at amortised cost	**21.106**	887.042
Total: gross	**276.881.531**	747.163.337
Credit loss allowance for loans and advances to customers (Note 22)	**(15.897.453)**	(252.904.066)
Total: net of impairment allowance	**260.984.078**	494.259.271

Details regarding transfer of certain of the Bank's loans to CAC Coral Ltd (entity under common control) during December 2018, are disclosed in Note 37 (iv) and transfer of certain of the Bank's loans to the Cyprus branch of the parent bank are disclosed in Note 37(vi).

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

	2018 €	2017 €
Due within three months	**125.896.220**	113.300.696
Between three months and one year	**12.727.411**	52.684.595
Between one and five years	**61.158.150**	88.968.144
Over five years	**77.099.750**	492.209.902
Total: Gross	**276.881.531**	747.163.337

The analyses of advances by industry sector is presented below:

	2018 €	2017 €
Trade and services	**124.502.416**	285.718.119
Construction	**46.939.675**	184.081.668
Manufacturing	**19.315.832**	59.285.580
Tourism	**11.164.600**	26.674.051
Retail	**55.659.145**	123.574.830
Other	**19.299.863**	67.829.089
Total: Gross	**276.881.531**	747.163.337

Analysis by geographical area:

	2018 €	2017 €
Cyprus	**265.617.301**	691.208.410
Greece	**3.161.513**	1.671.383
Other countries	**8.102.717**	54.283.544
Total: Gross	**276.881.531**	747.163.337

The fair value of loans and other advances to customers approximates their carrying amount at the balance sheet date. Loans and advances to customers are categorized as "financial assets at amortised cost".

21. BALANCES WITH RELATED BANKS

(a) Deposits with related banks

	2018 €	2017 €
National Bank of Greece S.A. (parent bank)	**175.424.289**	55.709.025
ECL	**(747.257)**	-
Total: net of ECL	**174.677.032**	55.709.025

The maturity of the above balances is presented below:

	2018 €	2017 €
Due within three months	**175.424.289**	55.709.025
ECL	**(747.257)**	-
Total: net of ECL	**174.677.032**	55.709.025

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

(b) Deposits from related banks

	2018 €	2017 €
National Bank of Greece S.A. (parent bank)	**809.138**	13.406.712
	809.138	13.406.712

The maturity of the above balances is presented below.

	2018 €	2017 €
Due within three months	**809.138**	13.406.712
	809.138	13.406.712

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

22. CREDIT LOSS ALLOWANCE ON LOANS AND ADVANCES TO CUSTOMERS

	€
Balance 1 January 2017	278.135.373
Impairment losses for the year	15.217.564
Write offs against provisions	(46.875.970)
Provision on accrued interest for interest income not recognised	6.427.099
Balance at 31 December 2017 (Note 20)	252.904.066
IFRS 9 adjustment as at 1 January 2018	46.334.405
Balance at 1 January 2018 - Restated for IFRS 9	299.238.471
Reversal of impairment losses for the year	(2.376.775)
Write offs against provisions	(10.461.617)
Provisions on transferred portfolio (Note 37)	(271.370.932)
Provision on accrued interest for interest income not recognized	868.306
Balance at 31 December 2018 (Note 20)	**15.897.453**

Amounts recognised in profit or loss:

	2018 €	2017 €
Provision for impairment of loans and advances to customers – (reversal)/charge	**(2.376.775)**	15.217.564

During the years ended 31 December 2018 and 2017 the Bank has not written off any loans and advances that are subject to enforcement rights.

23. FINANCIAL ASSETS – INVESTMENTS IN EQUITY SECURITIES

(a) Equity investments at fair value through other comprehensive income (FVOCI) comprise the following:

	2018	2017
	€	€
Listed equity securities:		
Master Card International Incorporation	**3.446.805**	-
Unlisted equity securities:		
JCC Payment Systems Ltd	**972.560**	-
Equity investments at fair value through other comprehensive income	**4.419.365**	-

The movement of financial assets at FVOCI is as follows:

	2018	2017
	€	€
Adoption of IFRS 9 1 January	**4.879.028**	-
Net gain from changes in fair value recognised in OCI	**763.971**	-
Disposal	**(1.223.634)**	-
Carrying amount at 31 December	**4.419.365**	-

(b) Equity investments at fair value through profit or loss (FVPL) comprise the following:

	2018	2017
	€	€
Listed equity securities:		
Bank of Cyprus Public Company Ltd	**6.434**	-
Financial assets at fair value through profit or loss	**6.434**	-

(c) Equity investments were classified as available-for-sale up to 31 December 2017. Available-for-sale financial assets comprise the following as at 31 December 2017:

	2018	2017
	€	€
Listed equity securities:		
Master Card International Corporation	-	2.682.834
Bank of Cyprus Public Company Ltd	-	10.168
Unlisted equity securities:		
JCC Payment Systems Ltd	-	972.560
Ethniki Insurance (Cyprus) Ltd	-	1.223.634
Available-for-sale financial assets	-	4.889.196

The Bank disposed its shareholding in Ethniki Insurance (Cyprus) Limited on 12 January 2018 for a consideration of €1.581.327, realizing a gain on disposal of €357.694.

23. FINANCIAL ASSETS – INVESTMENTS IN EQUITY SECURITIES (continued)

(c) Available-for-sale equity investments (continued)

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

	2018 €	2017 €
Carrying amount at 1 January	-	4.295.341
Net gain from changes in fair value	-	593.855
Carrying amount at 31 December	-	4.889.196

24. OTHER FINANCIAL ASSETS AT AMORTISED COST

(a) Financial assets at amortised cost include the following debts investments:

	2018 €	2017 €
Cyprus government bonds and treasury bills	**150.488.352**	-
ECL	**(122.190)**	-
Total: net of ECL	**150.366.162**	-

	2018 €	2017 €
Listed on the Cyprus Stock Exchange	**150.488.352**	-
ECL	**(122.190)**	-
Total: net of ECL	**150.366.162**	-

The maturity of the above investments is presented below:

	2018 €	2017 €
Within three months	**106.684.045**	-
Between one and five years	**20.707.036**	-
Over five years	**23.097.271**	-
Total: Gross carrying amount	**150.488.352**	-
ECL	**(122.190)**	-
Total: net of ECL	**150.366.162**	-

24. OTHER FINANCIAL ASSETS AT AMORTISED COST (continued)

(a) Financial assets at amortised cost (continued):

The movement of financial assets at amortised costs is as follows:

	2018 €	2017 €
At 1 January	-	-
Classification upon adoption of IFRS 9	**123.084.236**	-
Additions	**453.965.940**	-
Maturities and redemptions	**(425.788.000)**	-
Interest accrued	**580.937**	-
Interest received	**(1.354.761)**	-
ECL	**(122.190)**	-
At 31 December	**150.366.162**	-

(b) Loans and receivables:

	2018 €	2017 €
Cyprus government bonds and treasury bills	-	123.084.236

	2018 €	2017 €
Listed on the Cyprus Stock Exchange	-	123.084.236

	2018 €	2017 €
At 1 January	-	95.080.348
Additions	-	174.579.775
Maturities and redemptions	-	(146.502.000)
Interest accrued	-	1.280.873
Interest received	-	(1.354.760)
At 31 December	-	123.084.236

The maturity of the above investments is presented below:

	2018 €	2017 €
Within three months	-	102.357.228
Between one and five years	-	-
Over five years	-	20.727.008
	-	123.084.236

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25. PROPERTY, PLANT AND EQUIPMENT

	Land, Buildings and installations	Motor Vehicles	Furniture and equipment	Total
	€	€	€	€
Cost or valuation				
1 January 2017	9.911.094	204.659	4.361.956	14.477.709
Additions	31.409	-	72.597	104.006
Revaluation	156.310	-	-	156.310
31 December 2017/1 January 2018	10.098.813	204.659	4.434.553	**14.738.025**
Additions	-	1.990	22.871	**24.861**
Write offs/disposals	-	(12.927)	(4.230)	**(17.157)**
31 December 2018	10.098.813	193.722	4.453.194	**14.745.729**
Accumulated depreciation				
1 January 2017	157.693	187.615	3.712.868	4.058.176
Charge for the year	101.296	3.909	190.124	295.329
Revaluation	(258.989)	-	-	(258.989)
31 December 2017/1 January 2018	-	191.524	3.902.992	**4.094.516**
Charge for the year	103.258	3.962	175.465	**282.685**
Write offs/disposals	-	(12.927)	(4.127)	**(17.054)**
31 December 2018	103.258	182.559	4.074.330	**4.360.147**
Net book value				
31 December 2018	9.995.555	11.163	378.864	**10.385.582**
31 December 2017	10.098.813	13.135	531.561	10.643.509

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

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

The Bank adopted a valuation technique using unobservable inputs. Accordingly, the fair value was classified as Level 3.

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

The valuation levels are defined as follows:

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

25. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Quoted prices in active markets for identical assets (level 1) 2018 €	Significant other observable inputs (level 2) 2018 €	Significant unobservable inputs (level 3) 2018 €	Total 2018 €
Land	-	-	**6.535.000**	**6.535.000**
Buildings	-	-	**3.227.500**	**3.227.500**
	-	-	**9.762.500**	**9.762.500**

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

Information about fair value measurements using significant unobservable inputs (Level 3) – 31 December 2018

Description	Fair value at 31 December 2018 €		Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
	Land	Office building				
Land and office building – Nicosia	6.032.500	3.052.500	Market comparable approach	Price per square meter	Approximately €350-€650 for basements, €4.500 for ground floor and mezzanine (new building) and €8.000 for ground floor and mezzanine (preserved building)	The higher the price per square meter, the higher the fair value

25. PROPERTY, PLANT AND EQUIPMENT (continued)

Details of the Bank's land and buildings and information about the fair value hierarchy as at 31 December 2018 are as follows:

Description	Fair value at 31 December 2018 € Land	Office building	Valuation technique(s)	Rental value €	Discount rate	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
Land and office building - Larnaca	502.500	175.000	Market comparable approach	-	-	Price per square meter	€1.500 for mezzanine floor and €3.900 for ground floor	The higher the price per square meter, the higher the fair value
			Discounted cash flow approach	45.000	6,50%	Discount rate	-	The higher the discount rate, the lower the fair value

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

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

25. PROPERTY, PLANT AND EQUIPMENT (continued)

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

26. INVESTMENT PROPERTY

	2018 €	2017 €
Balance at 1 January	**4.206.500**	4.470.000
Fair value loss (Note 11)	-	(263.500)
Balance at 31 December	**4.206.500**	4.206.500

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

The fair value measurement of the Bank's investment property as at 31 December 2018 and 31 December 2017 has been derived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Bank. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flow approach that reflects the annual return or potential return of the investor from the property held.

As at 31 December 2018 and 2017, the fair value of the land and buildings has been determined at the average value based on the valuations carried out by the Bank's two independent property valuers.

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

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

26. INVESTMENT PROPERTY (continued)

	Level 3 2018 €	Fair value 2018 €
Land	**2.150.000**	**2.150.000**
Buildings	**2.056.500**	**2.056.500**
	4.206.500	**4.206.500**

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

Information about fair value measurement using significant unobservable inputs (Level 3) – 31 December 2018

Description	Fair value at 31 December 2018 €		Valuation technique	Rental value €	Discount rate %	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair values
Land and office building – Limassol	Land 2.150.000	Office Building 2.056.500	Market comparable approach	-	-	Price per square meter	Approximately €178 for basement, €3.300 for ground floor and €900-1.200 for mezzanine floor	The higher the price per square meter, the higher the fair value
			Discounted cash flows approach	14.000	5%	Discount rate	-	The higher the discount rate, the lower the fair value

26. INVESTMENT PROPERTY (continued)

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

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

27. INTANGIBLE ASSETS

	Computer software €
At 1 January 2017	
Cost	10.788.704
Accumulated amortisation	(5.744.066)
Net book amount	5.044.638
Year ended 31 December 2017	
Opening net book amount	5.044.638
Additions	413.708
Amortisation charge	(477.360)
Closing net book amount	4.980.986
At 31 December 2017	
Cost	11.202.412
Accumulated amortisation	(6.221.426)
Net book amount	4.980.986
Year ended 31 December 2018	
Opening net book amount	**4.980.986**
Additions	**248.291**
Amortisation charge	**(511.665)**
Closing net book amount	**4.717.612**

27. INTANGIBLE ASSETS (continued)

	Computer software €
At 31 December 2018	
Cost	**11.450.703**
Accumulated amortisation	**(6.733.091)**
	4.717.612

28. OTHER ASSETS

	2018 €	2017 €
Financial assets		
Debtors and other receivables	**2.175.059**	2.956.213
Fair value of derivatives (1)	**21.975**	16.517
	2.197.034	2.972.730
Non-financial assets		
Prepaid expenses	**303.177**	219.251
Total other assets	**2.500.211**	3.191.981

(1) Forward foreign exchange contracts
The nominal value of the outstanding forward foreign exchange contracts at 31 December 2018 was €1.7 million (2017: €1 million).

29. DEPOSITS FROM OTHER BANKS

	2018 €	2017 €
Interbank borrowing	**8.359.964**	9.737.010

The maturity of the above balances is presented below:

	2018 €	2017 €
Due within three months	**5.886.538**	6.955.128
Between three months and one year	**2.473.426**	2.781.882
Due within one and five years	-	-
	8.359.964	9.737.010

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

30. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	2018 €	2017 €
Time and notice accounts	**312.145.599**	354.996.204
Demand and current accounts	**179.381.298**	145.249.773
Savings accounts	**95.918.415**	72.443.633
	587.445.312	572.689.610

Analysis by geographical area

	2018 €	2017 €
Cyprus	**446.633.237**	427.079.268
Greece	**101.076.810**	105.317.989
Other countries	**39.735.265**	40.292.353
	587.445.312	572.689.610

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

The above mentioned balances maturity is presented below:

	2018 €	2017 €
Due within three months	**487.305.300**	466.829.646
Between three months and one year	**100.140.012**	105.859.964
	587.445.312	572.689.610

31. OTHER LIABILITIES

	2018 €	2017 €
Financial liabilities		
Amounts due to suppliers	**2.117.347**	270.951
Receipts on behalf of third parties	**579.117**	622.010
Cheques – drafts payable	**998.470**	3.105.652
Fair value of derivatives	**-**	7.581
Other liabilities	**4.986.825**	4.206.914
Provisions for Off-Balance Sheet exposures	**333.217**	131.703
	9.014.976	8.344.811
Non-financial liabilities		
Provision for staff unpaid leave	**86.051**	139.188
Value added tax payable	**150.861**	88.747
Provisions for litigations, claims and complaints	**1.121.781**	2.175.433
	1.358.693	2.403.368
Total other liabilities	**10.373.669**	10.748.179

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32. SHARE CAPITAL

	2018 Shares	2018 €	2017 Shares	2017 €
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

33. REVALAUTION RESERVES

	Land and buildings €	Available-for-sale investments €	Financial assets at FVTOCI €	Total €
Balance at 1 January 2017	7.766.967	3.251.354	-	11.018.321
Gain from change in fair value	415.299	593.855	-	1.009.154
Balance at 31 December 2017	8.182.266	3.845.209	-	12.027.475
Reclassification on adoption of IFRS 9	-	(3.845.209)	3.845.209	-
Balance at 1 January 2018	8.182.266	-	3.845.209	12.027.475
Gain from change in fair value (Note 23)	-	-	763.970	763.970
Balance at 31 December 2018	**8.182.266**	-	**4.609.179**	**12.791.445**

34. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2018 €	2017 €
Acceptances and Endorsements	**1.174.186**	785.142
Letters of Guarantee	**18.650.195**	22.523.398
Letters of Credit	**2.144.195**	3.029.408
Customers' credit limits that have been approved but have not been used	**102.053.499**	101.193.470
	124.022.075	127.531.418

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

Pending litigations and claims

As at 31 December 2018 and 31 December 2017 there were pending litigations against the Bank in connection with its activities. Based on legal advice the Board of Directors believes that there is adequate defence against all claims and it is not possible that the Bank will suffer any significant damage over and above any amounts already provided as disclosed in Note 31. Provision amounts recognized primarily relate to outstanding industrial and/or trade union disputes in relation to which the Bank expects economic outflows that approximate the provision amounts recognized. The Bank is unable to reliably estimate the exact timing of such outflows, the majority of which depend on the timing of final court decisions whose determination is by nature uncertain.

34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Operating lease commitments

As at 31 December 2018 and 31 December 2017, the Bank had no operating lease commitments under a non-cancellable operating lease.

35. NET CASH FROM OPERATING ACTIVITIES

	Note	2018 €	2017 €
Profit/(loss) before taxation		**3.541.472**	(7.881.508)
Depreciation of property, plant and equipment	25	**282.685**	295.329
Amortisation of intangible assets	27	**511.665**	477.360
Provision for unused vacation		**13.105**	1.190
(Reversal of impairment losses)/impairment losses on loans and advances to customers	22	**(2.376.775)**	15.217.564
Profit from derivative financial instruments		**(13.039)**	(30.314)
Loss on revaluation of investment property	26	**-**	263.500
Dividend income	10	**(130.288)**	(189.144)
Interest income on debt securities	6	**(580.937)**	(1.280.873)
Impairment loss on other financial assets at amortised cost	13	**122.190**	-
Profit on disposal of equity investment	12	**(357.694)**	-
Loss from fair value through profit or loss equity investment	11	**3.733**	-
		1.016.117	6.873.104
Decrease in loans and other advances to customers		**21.267.893**	34.707.599
Increase in deposits and other customer accounts		**14.755.702**	1.604.821
(Decrease)/increase in deposits with other banks		**(7.912)**	22.983
Increase/(decrease) in obligatory balances with Central Bank of Cyprus		**75.309**	(136.328)
(Decrease)/increase in deposits from other banks		**(1.377.046)**	53.303
Decrease in deposits from related banks		**(12.597.574)**	(8.046.323)
Decrease/(increase) in other assets		**691.770**	(2.439.340)
Decrease in other liabilities		**(374.510)**	(2.281.446)
Net cash generated from operations		**23.449.749**	30.358.373
Tax paid		**(90.768)**	(504.455)
Net cash generated from operating activities		**23.358.981**	29.853.918

36. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents

	2018 €	2017 €
Cash in hand (Note 17)	**12.951.446**	12.488.265
Non-obligatory balances with Central Bank of Cyprus	**12.992.622**	44.512.399
Deposits with related banks – due within three months	**175.424.289**	55.709.025
Deposits with other banks – due within three months	**31.906.755**	24.045.079
	233.275.112	136.754.768

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

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37. RELATED PARTY TRANSACTIONS

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

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

Trading transactions

During the year, the Bank entered into the following trading transactions with related parties:

	Interest & other income		Interest & other expense	
	2018	2017	2018	2017
	€	€	€	€
National Bank of Greece S.A. – parent bank	**1.240.704**	205.763	**1.225.993**	1.286.532
Subsidiaries of National Bank of Greece S.A	**1.024.033**	1.072.411	**851.984**	823.333

Balances with related companies

The following balances were payable to related parties at the end of the reporting period:

	2018	2017
	€	€
Deposits and other customer accounts		
National Securities S.A.-related party under common control	**332.938**	331.686
NBG Management Services Limited-related party under common control	**1.234.578**	16.623.317
Ethniki Insurance (Cyprus) Limited-related party under common control	**5.403.653**	3.713.083
Ethniki General Insurance (Cyprus) Limited-related party under common control	**4.071.217**	3.846.827
National Securities (Cyprus) Limited-subsidiary	**1.912**	1.912
Quadratix Limited-related party under common control	**1.056.410**	1.042.049
CAC Coral Limited – related party under common control	**1.341.460**	-
	13.442.168	25.558.874

The following balances were receivable from related parties at the end of the reporting period:

	2018	2017
	€	€
Loans and other advances to related parties under common control		
NBG Leasing IFN S.A.	-	26.302.557
	-	26.302.557

Deposits with and from related banks are presented in Note 21(a) to the financial statements.

37. RELATED PARTY TRANSACTIONS (continued)

Other transactions

(i) The parent company, National Bank of Greece S.A., had issued a letter of guarantee of €15,9 million in favour of the Bank that supported the recoverability of the outstanding loan granted to NBG Leasing IFN S.A. The guarantee expired on 31 July 2018 and was renewed until 31 July 2019. The remaining amount of €10,4 million was secured through a cash collateral lien agreement with the parent company (see below).

(ii) As of 31 December 2018, the loan to NBG Leasing IFN S.A. of €26m was transferred to CAC Coral Ltd (entity under common control). As of 31 December 2017, the Bank had in place lien agreements from National Bank of Greece S.A., which acted as guarantees for the purposes of securing the following assets as at the reporting date.

	2018 €	2017 €
Loans and advances to customers	-	26.302.557

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

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

(iv) On 21 December 2018, most of the Bank's Stage 3 loan portfolio with a net book value of €167.5m was transferred to CAC Coral Limited (entity under common control), at no gain, no loss. Out of the total consideration of €167.5 million, an amount of €70 million was not settled in cash, but via a decrease in retained earnings.

As part of the agreement for the aforementioned transfer of loan portfolio the Bank initially borrowed €97.65 million from the parent company and subsequently this loan was assigned to CAC Coral Limited.

(v) On 12 January 2018, the Bank disposed its share in National Insurance (Cyprus) Limited for an amount of €1.581.327 to an entity under common control (Note 12).

(vi) On 19 December 2018, the Bank assigned to the Cyprus branch of the parent bank loans and advances to customers of net book value €9 million, for consideration of an equivalent amount, at no gain, no loss.

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

	2018 €	2017 €
Loans and advances to members of the Board of Directors and connected persons	**1.420**	2.109
Deposits of members of the Board of Directors and connected persons	**103.543**	94.568
Interest expense	**20**	240

37. RELATED PARTY TRANSACTIONS (continued)

(vii) Key management personnel related transactions (continued)

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

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

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

	2018 €	2017 €
Fees paid to Directors as members of the Board	**78.000**	68.192
Executive Directors emoluments		
Salaries and other short-term benefits	**218.287**	141.723
Employer's contributions	**7.777**	3.251
	226.064	144.974
Total compensation	**304.064**	213.166

38. OPERATING ENVIRONMENT OF THE BANK

The Cypriot economy has recorded positive growth in 2018 after overcoming the economic recession of recent years. The overall economic outlook of the economy remains favorable, however there are still downside risks emanating from the still high levels of non-performing loans, the public debt ratio, as well as possible deterioration of the external environment for Cyprus.

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

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

The high levels of non-performing exposures (NPEs) pose major risks to the stability of the banking system and to the outlook for the economy. Unavoidably, the high level of NPEs causes an erosion of the Banks' income and may cause additional provisions and effectively reduced profit from operating activities. At the same time the Bank recognizes that the real estate market which is a significant driver of the provisions for impairment of customer loans still faces certain challenges, thus, continues to put further pressure on the profitability. Within the framework of tackling the Bank's loan portfolio quality, the Bank is focusing on restructuring loans in sustainable manner and on mutually beneficial terms. Furthermore, the transfer of the NPE portfolio to CAC Coral Ltd (related party under common control) has significantly cleared up the Bank's balance sheet from the non-performing loans and allows the Bank to pursue new opportunities for stable growth.

38. OPERATING ENVIRONMENT OF THE BANK (continued)

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

39. RISK MANAGEMENT

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

a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk arises mainly from loans and advances to banks, customers and loan commitments, but can also arise from financial guarantees, investments in debt securities and other exposures resulting from its trading activities including derivatives, other financial assets and balance with central banks.

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

The loan portfolio is assessed on the basis of customer creditworthiness, the sector of the economy in which the customer operates and the country of operation and is regularly examined by the Bank's Internal Audit department.

Credit concentration risk

Credit concentration risk arises from exposures to each counterparty, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity. The following categories of credit concentration risk are recognized by the Bank:

- Single-name concentrations (including group of connected clients);
- Industry concentrations;
- Geographical concentrations;
- Collateral and guarantees concentration.

For the purposes of managing and monitoring concentration risks the Bank has established appropriate limits, a monitoring and reporting framework as well as appropriate measures and methodologies for the allocation of capital as mitigant.

Maximum exposure to credit risk and collateral and other credit enhancements

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

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

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39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

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

		Fair value of collateral and credit enhancements held by the Bank					
	Maximum exposure to credit risk €	Cash €	Securities €	Property €	Other €	Total collateral €	Net exposure to credit risk €
2018							
Balances with Central Bank of Cyprus	18.748.712	-	-	-	-	-	18.748.712
Deposits with banks	206.621.895	-	-	-	-	-	206.621.895
Loans and advances to customers	260.984.078	13.792.294	1.983	155.558.902	4.273.284	173.626.463	87.357.615
Debt securities at amortised cost	150.366.162	-	-	-	-	-	150.366.162
Other financial assets	2.197.034	-	-	-	-	-	2.197.034
On-balance sheet total	638.917.881	13.792.294	1.983	155.558.902	4.273.284	173.626.463	465.291.418
Contingent liabilities and commitments							
Acceptances and endorsements	1.174.186						
Letters of guarantee	18.650.195						
Letters of credit	2.144.195						
Undrawn credit lines and other commitments to lend	102.053.499						
Off-balance sheet total	124.022.075						
Total credit risk exposure	762.939.956						

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

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

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

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

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality of loans and other advances to customers - 31 December 2017

The following definitions apply for the purpose of completing the tables that follow relating to 31 December 2017 under IAS 39:

Neither past due nor impaired

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

Past due but not impaired

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

Impaired loans

Impaired loans are defined as follows:

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

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

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

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

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

	2017 €
Credit rating category:	
Low risk	222.156.094
High risk	7.165.969
	229.322.063

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality of loans and other advances to customers - 31 December 2017 (continued)

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

	2017
	€
Past due up to 30 days	45.424.358
Past due 31 – 60 days	5.875.551
Past due 61 – 90 days	309.310
Past due over 90 days	1.306.973
	52.916.192

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

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

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

Impaired loans and other advances

The analysis of the gross carrying amount of loans and other advances to customers that were impaired is as follows:

	2017
	€
Trade and services	141.225.007
Construction	131.294.760
Manufacturing	42.141.300
Tourism	17.406.772
Retail	83.741.857
Other	49.115.386
	464.925.082

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality of loans and other advances to customers - 31 December 2017 (continued)

Analysis by geographical area:

	2017
	€
Cyprus	443.928.698
Other countries	20.996.384
	464.925.082

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

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

Forborne exposures

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

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

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

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

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

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

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

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Forborne exposures (continued)

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

	Maximum exposure to credit risk €	Fair value of collateral €	Net exposure to credit risk €
2018			
Stage 2	**24.057.248**	**23.610.224**	**447.024**
Stage 3	**29.760.686**	**28.241.973**	**1.518.713**
	53.817.934	**51.852.197**	**1.965.737**

	Maximum exposure to credit risk €	Fair value of collateral €	Net exposure to credit risk €
2017			
Neither past due nor impaired	44.243.092	43.766.351	476.741
Past due but not impaired	12.150.365	12.145.682	4.683
Impaired	37.597.803	33.578.334	4.019.469
	93.991.260	89.490.367	4.500.893

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

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Analysis of loan portfolio from banking services according to performance status as at 31 December 2018

Table A

	Gross carrying amount				Accumulated impairment			
		of which non-performing exposures	of which exposures with forbearance measures	of which on non-performing exposures		of which non-performing exposures**	of which exposures with forbearance measures	of which on non performing exposures
Loans and advances*								
General governments	583.719	-	-	-	-	-	-	-
Other financial corporations	25.579.508	252.415	252.406	252.406	3.218.161	-	-	-
Non-financial corporations	176.980.783	20.287.384	35.033.285	14.146.589	4.655.913	3.286.640	1.419.885	1.412.992
Of which: Small and Medium-sized Enterprises	143.732.109	20.287.384	35.033.285	14.146.589	4.547.895	3.286.640	1.419.885	1.412.992
Of which: Commercial real estate	36.960.480	8.467.501	10.210.132	5.148.058	343.739	279.951	152.008	150.375
By sector:								
1. G Wholesale & Retail Trade	82.474.843	4.491.995			1.840.305			
2. F Construction	40.806.724	7.738.511			1.116.697			
3. C Manufacturing	18.386.866	1.319.740			545.262			
4. L Real Estate Activities	14.924.870	3.066.625			118.345			
5. I Accommodation & Food Services Activities	10.811.897	1.745.661			868.976			
Other sectors	9.575.583	1.924.852			166.328			
Households	73.737.521	29.699.956	18.532.243	15.361.691	8.023.379	7.531.733	1.546.855	1.534.675
Of which: Residential mortgage loans	34.952.083	12.843.619	14.119.476	11.954.129	1.458.791	1.425.549	1.314.688	1.312.574
Of which: Credit for consumption	15.118.287	1.129.957	1.556.867	786.023	591.512	279.852	51.830	49.079

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

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39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

Table A

	Gross carrying amount				Accumulated impairment			
		of which non-performing exposures	of which exposures with forbearance measures	of which on non-performing exposures		of which non-performing exposures**	of which exposures with forbearance measures	of which on non performing exposures
Loans and advances*								
General governments	891.598				15.671			
Other financial corporations	74.291.000	36.587.510	26.617.324	26.617.324	9.668.139	9.619.737	3.110	3.110
Non-financial corporations	474.810.677	319.172.387	44.987.348	33.696.761	167.806.467	164.736.379	2.922.752	2.774.295
Of which: Small and Medium-sized Enterprises	444.794.064	318.731.574	44.987.348	33.696.761	167.390.148	164.519.646	2.722.752	2.774.295
Of which: Commercial real estate	91.319.260	67.474.936	13.795.676	7.591.376	30.889.899	30.419.741	845.916	835.754
By sector:								
1. G Wholesale & Retail Trade	182.833.698	111.348.210			69.837.138			
2. F Construction	140.417.843	101.357.235			36.509.723			
3. C Manufacturing	54.403.989	38.190.130			23.671.394			
4. L Real Estate Activities	38.726.939	37.010.630			17.681.371			
5. I Accommodation & Food Services Activities	19.273.035	10.388.314			4.705.852			
Other sectors	39.155.173	20.877.868			15.400.989			
Households	197.170.062	152.333.187	22.386.588	19.975.202	75.413.789	74.409.660	1.947.066	1.908.233
Of which: Residential mortgage loans	67.144.091	48.901.553	15.349.604	14.321.995	15.816.480	15.649.862	546.952	534.043
Of which: Credit for consumption	43.602.653	29.634.570	3.563.536	2.554.927	20.133.933	19.513.884	1.063.195	1.057.311

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

NOTES TO THE FINANCIAL STATEMENTS
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39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Non-performing facilities and impairment amount analysed on the basis of the origination date of the credit facilities (excluding general governments) as at 31 December 2018

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	37.560.402	2.433.645	25.453	24.493.865	1.109.440	3.860	1.590.719	252.406	-	11.475.816	1.071.798	21.560
1 - 2 years	54.308.412	20.767.824	1.331.175	30.252.688	8.911.566	162.447	705.853	-	-	23.349.869	11.856.258	1.168.727
2 - 3 years	42.989.705	6.977.221	731.085	15.495.319	4.773.122	325.877	22.613.619	-	-	4.880.766	2.204.098	405.208
3 - 5 years	12.321.724	868.284	61.096	7.483.442	536.023	15.196	3.355	5	-	4.834.925	332.256	45.895
5 - 7 years	35.872.948	2.259.463	684.214	29.017.133	1.125.427	460.037	62.208	4	-	6.209.887	1.134.032	224.175
7 – 10 years	23.828.853	3.403.307	1.725.700	17.716.867	2.270.172	1.545.077	191.223	-	-	5.920.761	1.133.135	180.624
More than 10 years	69.999.487	13.530.011	6.259.650	52.521.469	1.561.634	774.146	412.531	-	-	17.065.497	11.968.379	5.485.544
	276.881.531	50.239.755	10.818.373	176.980.783	20.287.384	3.286.640	25.579.508	252.415	-	73.737.521	29.699.956	7.531.733

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

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39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

Table B

Loan origination date*	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment		Non-performing loans	Accumulated impairment
Within 1 year	35.807.671	14.329.892	431.902	16.670.946	3.259.984	491.925	557.386	-	-	18.579.340	11.069.908	381.978
1 - 2 years	38.924.348	21.549.168	2.488.218	29.417.472	15.636.435	1.391.569	286.296	-	-	9.220.580	5.912.733	1.096.649
2 - 3 years	71.002.670	10.283.598	2.870.960	28.788.922	7.278.049	1.851.441	36.695.941	314.768	3.110	5.517.807	2.690.781	1.016.409
3 - 5 years	30.913.932	13.646.093	2.017.145	21.722.432	9.038.965	489.885	194	-	-	9.191.306	4.607.128	1.527.260
5 - 7 years	46.783.119	40.818.378	5.850.181	10.836.446	9.457.165	4.453.464	26.303.258	26.302.557	-	9.643.416	5.058.656	1.396.717
7 – 10 years	114.372.538	78.911.786	29.295.963	87.073.266	60.490.026	22.493.207	199.571	153.801	66.365	27.099.701	18.267.959	6.736.391
More than 10 years	409.359.059	328.554.172	205.811.415	280.301.193	214.011.764	134.006.889	10.248.354	9.816.385	9.550.262	117.917.913	104.726.022	62.254.264
	747.163.337	508.093.087	248.765.784	474.810.677	319.172.388	164.736.380	74.291.000	36.587.511	9.619.737	197.170.063	152.333.187	74.409.668

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

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Other financial assets at amortised cost
Other financial assets at amortised cost include loans and advances to customers, financial assets at amortised costs, cash and balances with Central Bank of Cyprus, Deposits with other and related banks.

The Bank considers the probability of default upon initial recognition of financial asset at amortised cost and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower/counterparty;
- significant increases in credit risk on other financial instruments of the same borrower/counterparty;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Bank has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Bank. Where loans or receivables have been written off, the Bank continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Bank uses three categories for loans, receivables, other receivables, debt securities at FVOCI which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit rating companies, such as Standard and Poor, Moody's and Fitch.

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality of loans and other advances to customers - 31 December 2018

A summary of the assumptions underpinning the company's expected credit loss model is as follows:

Category	*Company definition of category*	*Basis for recognition of expected credit loss provision*	*Basis for calculation of interest revenue*
Performing	Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	Stage 1: 12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.	Gross carrying amount
Underperforming	Counterparties for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail) as well as any breach on the recorded 12 month and lifetime PD thresholds and ratings downgrades. In addition the forbearance status is considered.	Stage 2: Lifetime expected losses	Gross carrying amount
Non-performing	Interest and/or principal repayments are 90 days past due. Also the contamination rule (pulling effect) is in place with regards to corporate portfolio.	Stage 3: Lifetime expected losses	Amortised cost carrying amount (net of credit allowance)

Over the term of the loans and advances to customers, financial assets at amortised cost, cash and balance with Central Bank of Cyprus, Deposits with other and related banks, the Bank accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Bank considers historical loss rates for each category of customers, and adjusts for forward looking macroeconomic data.

The Bank provides for credit losses against loans and advances to customers, financial assets at amortised cost, cash and balances with Central Bank of Cyprus, Deposits with other and related banks. The following tables contains an analysis of the credit risk exposure of each class of financial instruments for which an ECL allowance is recognised. The gross carrying amounts below also represents the Bank's maximum exposure to credit risk on these assets as at 31 December 2018.

The following table analyses the Bank's loans and advances in accordance with internal credit rating category.

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality of loans and other advances to customers - 31 December 2018 (continued)

Loans and advances to customers

Bank's internal credit rating	Gross carrying amount €	Credit loss allowance €	Carrying amount (net of impairment provision) €
A1	65.134.435	303.420	64.831.015
A2	32.984.691	209.943	32.774.748
B1	17.910.409	175.364	17.735.045
B2	12.048.323	126.136	11.922.187
C1	29.396.029	154.006	29.242.023
C2	7.891.502	84.633	7.806.869
D1	6.459.796	600.498	5.859.298
D2	13.385.829	115.281	13.270.548
E1	28.972.560	3.697.052	25.275.508
E2	26.638.369	366.177	26.272.192
F	36.059.588	10.064.943	25.994.645
Total	276.881.531	15.897.453	260.984.078

Cash and balances with Central Bank of Cyprus

Internal credit assessment	Expected credit loss rate	Gross carrying amount (€)	(ECL) €	Carrying amount (net of impairment provision) (€)
Performing	0,065%	18.760.843	(12.131)	18.748.712
Underperforming	N/A	-	-	-
Not performing	N/A	-	-	-
Write off	N/A	-	-	-
Total		**18.760.843**	**(12.131)**	**18.748.712**

Due from other and related banks

Internal credit assessment	Expected credit loss rate	Gross carrying amount (€)	(ECL) (€)	Carrying amount (net of impairment provision) (€)
Performing	0,426%	207.505.806	(883.911)	206.621.895
Underperforming	N/A	-	-	-
Not performing	N/A	-	-	-
Write off	N/A	-	-	-
Total		**207.505.806**	**(883.911)**	**206.621.895**

Financial assets at amortised cost – Cyprus Government bonds and treasury bills

Internal credit assessment	Expected credit loss rate	Gross carrying amount (€)	(ECL) (€)	Carrying amount (net of impairment provision) (€)
Performing	0,08%	150.488.352	(122.190)	150.366.162
Underperforming	N/A	-	-	-
Not performing	N/A	-	-	-
Write off	N/A	-	-	-
Total		**150.488.352**	**(122.190)**	**150.366.162**

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Loans and advances to customers – total loans

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans to customers between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
	Stage 1 12 month ECL, €	Stage 2 Lifetime ECL, €	Stage 3 Lifetime ECL €	Total, €	Stage 1 12 month ECL, €	Stage 2 Lifetime ECL, €	Stage 3 Lifetime ECL €	Total, €
Opening balances at 1 January 2018	3.562.983	5.088.762	290.586.726	299.238.471	194.232.021	11.016.694	541.914.622	747.163.337
Transfers:								
Transfer from Stage 1 to Stage 2	(4.185.985)	5.063.182	-	877.197	(30.853.067)	30.853.067	-	-
Transfer from Stage 1 to Stage 3	(305.719)	-	2.639.377	2.333.658	(2.469.652)	-	2.469.652	-
Transfer from Stage 2 to Stage 1	21.955	(582.708)	-	(560.753)	3.732.765	(3.732.765)	-	-
Transfer from Stage 2 to Stage 3	-	(79.780)	50.951	(28.829)	-	(4.664.941)	4.664.941	-
Transfer from Stage 3 to Stage 2	-	78.417	(872.214)	(793.797)	-	29.194.080	(29.194.080)	-
New financial assets originated or purchased	127.263	27.131	554	154.948	22.216.754	1.896.592	186.702	24.300.048
Financial assets derecognized during the period	-	(1.805.301)	(269.565.631)	(271.370.932)	-	(10.900.000)	(435.970.241)	(446.870.241)
Changes in PDs/LGDs/EADs	(361.718)	5.618	(4.012.864)	(4.368.964)	-	-	-	-
Changes in interest accruals	-	-	-	-	9.772.419	2.356.734	5.106.959	17.236.112
Write offs	(86.105)	-	(10.375.512)	(10.461.617)	(21.745)	(64.360)	(10.365.744)	(10.451.849)
Other movements	-	-	9.765	9.765	(12.589.344)	(13.329.734)	(28.576.798)	(54.495.876)
Fees charged	2.645.121	(4.331.515)	1.686.394	-	-	-	-	-
Provision for accrued interest not recognised	336.484	3.882	527.940	868.306	-	-	-	-
Closing balances as at 31 December 2018	1.754.279	3.467.688	10.675.486	15.897.453	184.020.151	42.625.367	50.236.013	276.881.531

* Stage 3 exposures may shift to stage 2 if obligations are met for a continuous period of 12 months.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Loans and advances to customers – mortgages loans

The following table discloses the changes in the credit loss allowance and gross carrying amount for mortgage loans to customers between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
	Stage 1 12 month ECL, €	**Stage 2 Lifetime ECL, €**	**Stage 3 Lifetime ECL €**	**Total, €**	**Stage 1 2 month ECL, €**	**Stage 2 Lifetime ECL, €**	**Stage 3 Lifetime ECL €**	**Total, €**
Opening balances at 1 January 2018	87.142	207.317	20.448.887	20.743.346	25.532.556	1.773.057	55.043.802	82.349.415
Transfers:								
Transfer from Stage 1 to Stage 2	(1.063)	25.948	-	24.885	(1.553.995)	1.553.995	-	-
Transfer from Stage 1 to Stage 3	(24)	-	(882)	(906)	(421.604)	-	421.604	-
Transfer from Stage 2 to Stage 1	1.653	(30.181)	-	(28.528)	447.270	(447.270)	-	-
Transfer from Stage 2 to Stage 3	-	(2.706)	708	(1.998)	-	(532.318)	532.318	-
Transfer from Stage 3 to Stage 2	-	3.015	(205.918)	(202.903)	-	1.687.468	(1.687.468)	-
New financial assets originated or purchased	3.182	23.062	-	26.244	5.180.907	998.562	-	6.179.469
Financial assets derecognized during the period	-	-	(18.571.117)	(18.571.117)	-	-	(37.986.863)	(37.986.863)
Changes in PDs/LGDs/EADs	232.900	10.597	(363.374)	(119.877)	-	-	-	-
Changes in interest accruals	-	-	-	-	920.404	167.089	792.289	1.879.782
Write offs	-	-	(22.954)	(22.954)	-	-	(22.954)	(22.954)
Other movements	-	-	3.294	3.294	(7.280.192)	(566.387)	(1.136.628)	(8.983.207)
Fees charged	(274.743)	(170.495)	442.525	(2.713)	-	-	-	-
Provision for accrued interest not recognized	38.866	3.547	83.858	126.271	-	-	-	-
Closing balances as at 31 December 2018	87.913	70.104	1.815.027	1.973.044	22.825.346	4.634.196	15.956.100	43.415.642

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Loans and advances to customers – consumer loans

The following table discloses the changes in the credit loss allowance and gross carrying amount for consumer loans to customers between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
	Stage 1 12 month ECL, €	Stage 2 Lifetime ECL, €	Stage 3 Lifetime ECL €	Total, €	Stage 1 12 month ECL, €	Stage 2 Lifetime ECL, €	Stage 3 Lifetime ECL €	Total, €
Opening balances at 1 January 2018	160.740	93.477	20.743.724	20.997.941	10.142.567	498.704	30.165.223	40.806.494
Transfers:								
Transfer from Stage 1 to Stage 2	(2.025)	38.589	-	36.564	(191.465)	191.465	-	-
Transfer from Stage 1 to Stage 3	(2.209)	-	53.086	50.877	(54.319)	-	54.319	-
Transfer from Stage 2 to Stage 1	10.145	(59.423)	-	(49.278)	211.028	(211.028)	-	-
Transfer from Stage 2 to Stage 3	-	(27.478)	44.615	17.137	-	(123.420)	123.420	-
Transfer from Stage 3 to Stage 2	-	8.004	(42.909)	(34.905)	-	777.733	(777.733)	-
New financial assets originated or purchased	6.671	2.635	260	9.566	1.143.525	21.598	6.051	1.171.174
Financial assets derecognized during the period	-	-	(18.192.044)	(18.192.044)	-	-	(26.053.046)	(26.053.046)
Changes in PDs/LGDs/EADs	130.088	(3.879)	(1.417.805)	(1.291.596)	-	-	-	-
Changes in interest accruals	-	-	-	-	580.951	85.485	254.970	921.406
Write offs	(17.406)	-	(1.137.824)	(1.155.230)	(17.406)	-	(1.128.056)	(1.145.462)
Other movements	-	-	5.009	5.009	(1.853.370)	(169.829)	(1.433.862)	(3.457.061)
Fees charged	(183.407)	15.433	174.913	6.939	-	-	-	-
Provision for accrued interest not recognized	29.307	322	38.484	68.113	-	-	-	-
Closing balances as at 31 December 2018	131.904	67.680	269.509	469.093	9.961.511	1.070.708	1.211.286	12.243.505

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Loans and advances to customers – corporate loans

The following table discloses the changes in the credit loss allowance and gross carrying amount for corporate loans to customers between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
	Stage 1 12 month ECL, €	Stage 2 Lifetime ECL, €	Stage 3 Lifetime ECL €	Total, €	Stage 1 12 month ECL, €	Stage 2 Lifetime ECL, €	Stage 3 Lifetime ECL €	Total, €
Opening balances at 1 January 2018	3.315.101	4.787.968	249.394.115	257.497.184	158.556.898	8.744.933	456.705.597	624.007.428
Transfers:								
Transfer from Stage 1 to Stage 2	(4.182.897)	4.998.645	-	815.748	(29.107.607)	29.107.607	-	-
Transfer from Stage 1 to Stage 3	(303.486)	-	2.587.173	2.283.687	(1.993.729)	-	1.993.729	-
Transfer from Stage 2 to Stage 1	10.157	(493.104)	-	(482.947)	3.074.467	(3.074.467)	-	-
Transfer from Stage 2 to Stage 3	-	(49.596)	5.628	(43.968)	-	(4.009.203)	4.009.203	-
Transfer from Stage 3 to Stage 2	-	67.398	(623.387)	(555.989)	-	26.728.879	(26.728.879)	-
New financial assets originated or purchased	117.410	1.434	294	119.138	15.892.322	876.432	180.651	16.949.405
Financial assets derecognized during the period	-	(1.805.301)	(232.802.470)	(234.607.771)	-	(10.900.000)	(371.930.332)	(382.830.332)
Changes in PDs/LGDs/EADs	(724.706)	(1.100)	(2.231.685)	(2.957.491)	-	-	-	-
Changes in interest accruals	-	-	-	-	8.271.064	2.104.160	4.059.700	14.434.924
Write offs	(68.699)	-	(9.214.734)	(9.283.433)	(4.339)	(64.360)	(9.214.734)	(9.283.433)
Other movements	-	-	1.462	1.462	(3.455.782)	(12.593.518)	(26.006.308)	(42.055.608)
Fees charged	3.103.271	(4.176.453)	1.068.956	(4.226)	-	-	-	-
Provision for accrued interest not recognized	268.311	13	405.598	673.922	-	-	-	-
Closing balances as at 31 December 2018	1.534.462	3.329.904	8.590.950	13.455.316	151.233.294	36.920.463	33.068.627	221.222.384

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a borrower as required. Guarantees which represent irrevocable assurances that the Bank will make payments in the event that a counterparty cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

	Stage 1 (12-months ECL) €	**Stage 2 (lifetime ECL for SICR) €**	**Stage 3 (lifetime ECL for credit impaired) €**	**Total €**
Issued letters of guarantees/letters of credit and acceptances and endorsements	21.790.280	3.442	174.854	21.968.576
Provision for issued letters of guarantees/credit	(8.865)	-	-	(8.865)

	Stage 1 (12-months ECL) €	**Stage 2 (lifetime ECL for SICR) €**	**Stage 3 (lifetime ECL for credit impaired) €**	**Total €**
Loan commitments – unutilised credit facilities	98.670.299	252.510	3.130.690	102.053.499
Provision for loan commitments	(260.056)	(20.423)	(43.873)	(324.352)

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit related commitments (continued)

Movements in the provision for loan commitments were as follows:

	Stage 1 (12-months ECL) €	Stage 2 (lifetime ECL for SICR) €	Stage 3 (lifetime ECL for credit impaired) €	Total provision €
Provision for loan commitments at 1 January 2018	267.742	15.484	86.920	370.146
Loan commitments (fees charged)	(80.399)	10.141	24.464	(45.794)
Movements between stages	72.713	(5.202)	(67.511)	-
Provision for loan commitments at 31 December 2018	260.056	20.423	43.873	324.352

Movements in the provision for letters of guarantees/credit were as follows:

	Stage 1 (12-months ECL) €	Stage 2 (lifetime ECL for SICR) €	Stage 3 (lifetime ECL for credit impaired) €	Total provision €
Provision for letters of guarantees/letters of credit and acceptances and endorsements at 1 January 2018	-	-	-	-
Issued guarantees (fees charged)	8.865	-	-	8.865
Provision for letters of guarantees/ letters of credit and acceptances and endorsements at 31 December 2018	8.865	-	-	8.865

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

39. RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	2018 €	2017 €
Aaa – Aa3	**5.752.999**	12.847.690
A1 – A3	**25.752.237**	11.263.279
Baa1 – Baa3	**398.585**	-
Ba1 – Ba2	**18.748.713**	50.355.929
Caa1 – Caa3	**174.677.032**	55.706.573
Unrated	**41.041**	103.412
	225.370.607	130.276.883

Investments in debt securities, comprising of Cyprus government bonds and treasury bills, are analysed by Moody's rating as follows:

	2018 €	2017 €
Ba2 - Ba3 (2017: Ba3)	**150.366.162**	123.084.236

	2018 €	2017 €
Issued by:		
Cyprus sovereign	**150.366.162**	123.084.236

	2018 €	2017 €
Classified as:		
Financial assets at amortised cost	**150.366.162**	123.084.236

39. RISK MANAGEMENT (continued)

b) Liquidity risk

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

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

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

Analysis of financial assets and financial liabilities by remaining contractual maturity

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

Financial assets

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

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

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

Financial liabilities

All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December. Fixed deposits are classified in time bands based on their contractual maturity.

Contingent liabilities and commitments

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

39. RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Analysis of financial assets and financial liabilities by remaining contractual maturity (continued)

	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
2018						
Financial assets						
Cash and balances with Central Bank of Cyprus	24.104.386	3.211.155	2.931.478	1.279.801	173.338	31.700.158
Deposits with banks	206.621.895	-	-	-	-	206.621.895
Loans and advances to customers	119.140.028	6.756.192	12.720.411	60.188.592	62.178.865	260.984.088
Equity investments at fair value through profit or loss	-	-	-	-	6.434	6.434
Equity investments at fair value through other comprehensive income	-	-	-	-	4.419.365	4.419.365
Other financial assets at amortised costs	51.628.280	54.969.142	-	20.690.223	23.078.517	150.366.162
Other financial assets	-	1.646.053	550.981	-	-	2.197.034
	401.494.589	66.582.542	16.202.870	82.158.616	89.856.519	656.295.136
Financial liabilities						
Deposits from banks	5.086.926	-	-	1.608.750	2.473.426	9.169.102
Deposits and other customer accounts	400.656.283	86.649.017	100.140.012	-	-	587.445.312
Other financial liabilities	1.711.068	-	5.571.730	1.732.178	-	9.014.976
	407.454.277	86.649.017	105.711.742	3.340.928	2.473.426	605.629.390
Off-balance sheet items						
Acceptances and endorsements	622.703	-	35.401	-	516.082	1.174.186
Letters of guarantee	1.145.511	5.107.024	7.880.171	1.517.675	2.999.814	18.650.195
Letters of credit	1.685.053	-	349.856	-	109.286	2.144.195
Amount of unutilised credit facilities	39.446	4.617.524	190.092	95.562.042	1.644.395	102.053.499
	3.492.713	9.724.548	8.455.520	97.079.717	5.269.577	124.022.075

	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
2017						
Financial assets						
Cash and balances with Central Bank of Cyprus	37.414.575	14.217.499	908.024	10.304.096	-	62.844.194
Deposits with banks	79.920.954	-	-	-	-	79.920.954
Loans and advances to customers	110.921.350	2.379.346	52.684.595	88.968.144	239.305.836	494.259.271
Available-for-sale investments	-	-	-	-	4.889.196	4.889.196
Investments classified as loans and receivables	35.912.015	66.445.213	-	-	20.727.008	123.084.236
Other financial assets	-	2.105.039	867.691	-	-	2.972.730
	264.168.894	85.147.097	54.460.310	99.272.240	264.922.040	767.970.581

39. RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Analysis of financial assets and financial liabilities by remaining contractual maturity (continued)

	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
Financial liabilities						
Deposits from banks	7.273.594	10.403.575	-	2.681.250	2.785.303	23.143.722
Deposits and other customer accounts	281.672.714	63.976.463	227.040.433	-	-	572.689.610
Other Liabilities	1.885.703	-	3.810.536	2.648.572	-	8.344.811
	290.832.011	74.380.038	230.850.969	5.329.822	2.785.303	604.178.143
Off-balance sheet items						
Acceptances and endorsements	470.430	314.712	-	-	-	785.142
Letters of guarantee	2.497.895	3.688.567	7.140.098	7.474.650	1.722.188	22.523.398
Letters of credit	98.614	2.540.454	390.340	-	-	3.029.408
Amount of unutilised credit facilities	101.193.470	-	-	-	-	101.193.470
	104.260.409	6.543.733	7.530.438	7.474.650	1.722.188	127.531.418

c) Market risk

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

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

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

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

39. RISK MANAGEMENT (continued)

c) Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

	Euro €'000	USD Dollars €'000	British Pound €'000	Other Currencies €'000	Total €'000
Change in interest rates					
2018					
+50 b.p. in all currencies	(62)	-	(38)	(20)	(120)
2017					
+50 b.p. in all currencies	(120)	(93)	(38)	(16)	(267)

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

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

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

	Open position €'000	Change in exchange rate %	Impact on net profit/ equity €'000
Currency			
2018			
US Dollar	37	+5	(6)
British Pound	26	+5	2
Other currencies	2.320	+5	(455)
2017			
US Dollar	44	+5	(2)
British Pound	(125)	+5	6
Other currencies	2.048	+5	(427)

39. RISK MANAGEMENT (continued)

d) Operational risk

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

e) Regulatory risk

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

f) Fair value of financial instruments

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

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

Fair value measurements recognised in the statement of financial position

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

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

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

- The fair values of equity investments at fair value through other comprehensive income that are traded on an inactive market are determined with reference to quoted market prices. Unquoted equity securities are valued using valuation techniques that include inputs from non-observable data. The non-observable inputs to the models for the valuation of unquoted equity investments 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.

39. RISK MANAGEMENT (continued)

f) Fair value of financial instruments (continued)

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

	Level 1 €	Level 2 €	Level 3 €	Total €
2018				
Financial assets at FVTPL				
Derivative financial assets	-	21.975	-	**21.975**
Equities	6.434	-	-	**6.434**
Financial assets at FVOCI				
Equities	3.446.805	-	972.560	**4.419.365**
Total	**3.453.239**	**21.975**	**972.560**	**4.447.774**

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

During 2018 and 2017 there were no transfers between levels.

Reconciliation of Level 3 fair value measurements

	Unlisted equity investments 2018 €	2017 €
Balance of 1 January	**2.196.194**	2.196.194
Disposal (Note 23)	**(1.223.634)**	-
Balance at 31 December	**972.560**	2.196.194

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

NOTES TO THE FINANCIAL STATEMENTS
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39. RISK MANAGEMENT (continued)

f) Fair value of financial instruments (continued)

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

	Level 1 €	Level 2 €	Level 3 €	Fair value for disclosure purposes €	Carrying amount €
2018					
Financial assets measured at amortised costs					
Loans and advances to customers	-	-	260.984.078	260.984.078	260.984.078
Deposits with banks	-	206.621.895	-	206.621.895	206.621.895
Financial assets at amortised cost	150.366.162	-	-	150.366.162	150.366.162
Financial liabilities measured at amortised costs					
Deposits and other customer accounts	-	587.445.312	-	587.445.312	587.445.312
Deposits from banks	-	9.169.102	-	9.169.102	9.169.102

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

40. CAPITAL MANAGEMENT

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

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

The Bank has chosen to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) according to which the capital impact of the changes introduced by IFRS 9 at the beginning of 2018, is 'phased in' over a 5-year period. During the 'phased-in' 5-year period the IFRS9 impairment provisions are added back to CET1 capital according to the following weighting factors: 0.95, 0.85, 0.7, 0.5 and 0.25 in 2018, 2019, 2020, 2021 and 2022 respectively.

The Bank's capital position under CRD IV/CRR after applying the transitional arrangement for IFRS 9 and on a fully loaded basis is presented below.

	According to the transitional arrangements 2018 €'000	**Fully loaded basis 2018 €'000**	**2017 €'000**
Common Equity Tier (CET1)	**108.750**	**70.196**	177.055
Additional Tier 1 Capital (ATI)	-	-	-
Tier 2 Capital (T2)	-	-	-
Regulatory Capital	**108.750**	**70.196**	177.055
Risk weighted assets – credit risk	**325.934**	**338.095**	598.864
Risk weighted assets – market risk	**3.000**	**3.000**	2.600
Risk weighted assets – operational risk	**51.263**	**51.263**	60.675
Total risk weighted assets	380.197	392.358	662.139

40. CAPITAL MANAGEMENT (continued)

	According to the transitional arrangements 2018 %	Fully loaded basis 2018 %	2017 %
Common Equity Tier 1 (CET1) ratio	**28,60**	**17,89**	26,74
Tier 1 ratio	**28,60**	**17,89**	26,74
Total capital ratio	**28,60**	**17,89**	26,74

The Bank was compliant with its capital requirements through the year ended 31 December 2017 and 31 December 2018.

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Financial instruments

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

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

Financial assets

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

Financial assets at FVTPL

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

AFS financial assets

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

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Financial assets (continued)

AFS financial assets (continued)

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Available for sale financial assets

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

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

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

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

Assets carried at amortised cost

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

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

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

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

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

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

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

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

Derecognition of financial assets

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

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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

Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Financial liabilities and equity instruments issued by the Bank (continued)

Financial liabilities at FVTPL (continued)

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

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

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

Other financial liabilities

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

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

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

Financial guarantee contracts

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

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

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

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

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

Derecognition of financial liabilities

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

41. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (continued)

Interest income and expense

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

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

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

Dividend income

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

42. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the balance sheet date, which have a bearing on the understanding of financial statements.

Independent auditor's report on pages 6 to 12.