cdbbank

The Cyprus Development Bank Group

Annual Financial Report

For the year ended 31 December 2017

CONTENTS

DIRECTORS AND ADVISERS

Management Body

Kyriacos Christofi, Chairman, Non-Executive
Neoclis Nicolaou, Vice Chairman, Non-Executive
Costas Argyrides, Executive (appointed 25.7.2017)
Andri Georghiou, Executive until 28.2.2018 and Non-Executive thereafter
Andreas Loizou, Non-Executive
George Loizou, Non-Executive
George Pavlides, Non-Executive
Menelaos Shiacolas, Non-Executive

Chief Executive Officer

Costas Argyrides (appointed 15.7.2017)
Kyriacos Papadopoulos (resigned 11.6.2016)

Acting Chief Executive Officer

George Spyrides (appointed from 31.5.2016 until 14.7.2017)

Secretary

Evi Protopapa

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

KPMG Limited
14 Esperidon Street
1087 Nicosia

Registered Office

50, Arch. Makarios III Avenue
Alpha House
1065 Nicosia

MANAGEMENT REPORT

The Management Body of the Cyprus Development Bank Public Company Limited (the "Bank") presents to the members its annual report together with the audited financial statements of the Bank and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Bank, which remained the same as in the previous year, are commercial banking operations.

The principal activities of the subsidiary company, Joint Stock Company cdbbank (for which the name cdbbank Russia or "cdbrussia" are also used), remained the same as in the previous year, namely commercial banking operations.

The principal activities of the subsidiary company, Global Capital Securities and Financial Services Ltd, which remained the same as in the previous year, are portfolio management as well as the provision of financial advisory, investment banking and brokerage services.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 14.

The Group profit before provisions amounted to €2,4 million compared to a profit of €3,4 million in 2016. The decrease in profit before provisions is mainly attributable to (a) the decrease of the net interest income by 23%, as a result of lower loan yields, the contraction of the bank's loan portfolio and the negative interest rates of the Euro, and (b) the increase of other operating expenses (excluding the CBC administrative fine) for 2017 by 30% compared to 2016, an increase mainly attributed to impairment losses on stock of properties, increased regulatory and supervisory fees, consultancy and legal fees.

Provisions for impairments during 2017 amounted to €4,6 million, 8% above the provision charge of €4,3 million reported in 2016. The Group, after provision for impairments has reported a pre-tax loss from continuing operations of €2,3 million compared to a loss of €0,9 million in 2016. After losses of €1,1 million from discontinued operations, relating to the Russian subsidiary JSC cdbbank, the Group reported after tax losses of €4,1 million for 2017.

The Group intensified its efforts for the improvement of the quality of the loans and advances portfolio and the decrease of non-performing loans. During 2017 the Group completed the restructuring for regularisation of a major client representing the single biggest exposure in the Bank's loan portfolio. The client became performing by end of May 2018, decreasing the NPE ratio from 52% on 31 December 2017 to 43% on 31 May 2018. A number of debt-for-asset swap arrangements were also initiated and concluded during the year under review in satisfaction of debts. At the same time the Group remains focused to growth through new lending and maintaining and strengthening client relationships.

DIVIDEND

The Management Body does not recommend the payment of dividend.

RISK MANAGEMENT

As a financial organisation the Group is exposed to risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Group monitors and manages these risks through the Risk Management unit, the Bank's ALCO committee, the Management Body's Risk Management Committee and the Management Body. Description of Group's risk management framework is set out in note 36 to the financial statements.

MANAGEMENT REPORT (continued)

SHARE CAPITAL

On 4 August 2017, an agreement was signed between the Bank and a Prospective Investor. As per the terms of the said agreement, an amount of €4 million was paid by the Prospective Investor in a non-redeemable "capital account" which may only be employed as common equity by the issue of share capital for the Bank. In case the Prospective Investor does not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

SHAREHOLDERS

Following clearances obtained from the authorities, namely the European Central Bank and the Cyprus Securities and Exchange Commission, as well as the rejection on 30 April 2018 by the District Court of Nicosia, of the application of shareholders Loramina Trading Ltd and Dayarona Trading Ltd for an interim order restraining the transfer of their 9.728.869 Class B shares to other shareholders, the Bank proceeded with the registration of the transfer of 8.755.982 Class B shares of Loramina Trading Ltd and 972.887 Class B shares of Dayarona Trading Ltd to the existing shareholders Path Holdings Ltd, Leon Investment S.A., Constantinos Shiacolas, Delphis Investments Ltd, Leonidas Ioannou, Intergaz Ltd, Panikos Katsouris and Antonios Yerolemou. The shareholding structure after the transfers is presented in note 38 to the financial statements.

CAPITAL MANAGEMENT

The total capital adequacy ratio of the Group as at 31 December 2017 increased to 14,29% compared to 11,45% at 31 December 2016.

The Management Body and Management are taking measures to strengthen further the capital adequacy of the Bank as per the requirements of the Central Bank of Cyprus, following its Supervisory Review Evaluation Process for 2017. Details on capital management are shown in note 36.5 of the financial statements.

IFRS 9

The Group IFRS 9 implementation has been largely completed by 1 January 2018. IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The ECL model will also result in earlier recognition of credit losses and thus a higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future.

Based on available information and current implementation status, the Management Body currently estimates that the impact of adopting IFRS 9 on the equity attributable to shareholders on 1 January 2018 will amount to a decrease of c€3,6million which will be recognised through equity rather than the consolidated income statement as of the implementation date of 1 January 2018. This impact primarily arises due to the change in provisions for loan impairment on adoption of IFRS 9.

The Group has elected to apply the provisions of EU Regulation 2017/2395 for gradual phase-in over a five year period of the impact on regulatory capital arising from the difference between the impairment amount as calculated on initial application of IFRS 9 with the amount recognised at 31 December 2017 in accordance with IAS 39. The amount to be deducted from regulatory own funds each year will increase based on weighting factors specified in the said EU Regulation (2018: 5%, 2019: 15%, 2020: 30%, 2021: 50% and 2022: 75%). For the year 2018 only 5% (c€180 thousand) of the estimated IFRS 9 impact will affect the capital ratios during 2018.

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES

The Group has set its strategic priorities for 2018 which mainly aim at increasing its operating profitability through the increase in its credit portfolio, the strengthening and enhancement of its investment banking operations, and the prudent increase of its fee generating business. At the same time the reduction of NPEs and improvement of the Bank's loan portfolio through the implementation of sustainable restructuring solutions remains a top priority for the Group.

The Group places continued emphasis on an effective risk management framework through prudent risk policies and measures, focusing on the growth of a healthy loans and advances portfolio and expanding its good client base.

In 2017 the Group invested substantial resources in order to strengthen the compliance function through the implementation of a new system, the revision and upgrading of procedures and processes and the reinforcement of the compliance department with human capital.

In the year under review a new IT strategy was formulated and a process was initiated for the review, assessment and selection of a core banking system that will help the Group achieve its strategic goals once implemented.

The Group will continue to manage its deposit base prudently in order to maintain healthy liquidity ratios. The Group will also focus on the provision of quality asset management and investment and advisory services, through its subsidiary company Global Capital Securities and Financial Services Ltd.

The disposal of JSC cdbbank, the Russian Subsidiary in Krasnodar region of Russia, remains a priority for the Group. Currently, offers from interested buyers are being evaluated while at the same time other options are being pursued by the Bank to divest itself of JSC cdbbank.

BRANCHES

The Bank carries out its activities through its head office and two business centers, one in Nicosia and one in Limassol.

MANAGEMENT BODY

The names of the members of the Management Body as at the date of this report (alternatively referred to as "Directors" and "Board of Directors" in the financial statements) are set out on page 3.

The Chairman and Vice Chairman and Directors Andri Georghiou, Andreas Loizou, George Loizou, George Pavlides, Menelaos Shiacolas and Sergey Novikov served on the Management Body throughout the year 2017. Mr. Costas Argyrides was appointed as an Executive member of the Management Body on 25 July 2017 having been appointed as Chief Executive Officer of the Bank on 15 July 2017.

Mr. Sergey Novikov resigned from the Management Body on 26 May 2018, Mrs. Alexandra P. von Sauber resigned from the Management Body on 30 July 2016, Mr. Kyriacos Papadopoulos resigned from the Management Body on 11 June 2016, Mr. Thomas Christodoulou resigned from the Management body on 24 May 2016 and Messrs Oleg Belousov and Aleksey Kulikov resigned from the Management Body on 15 March 2016.

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2017, one third of the directors serving (those with longest service since their last appointment) will be due for retirement and being eligible, will offer themselves for re-election.

MANAGEMENT REPORT (continued)

RELATED PARTY TRANSACTIONS

Disclosed in note 39 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Disclosed in note 41 to the financial statements.

INDEPENDENT AUDITORS

The independent auditors, Messrs KPMG Limited, have informed the Bank of their willingness to continue in office and a resolution authorising the Management Body to fix their remuneration will be submitted to the Annual General Meeting.

By the order of the Management Body,

Kyriacos Christofi
Chairman

Nicosia, 11 June 2018

KPMG

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INDEPENDENT AUDITORS' REPORT

to the Members of

THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED

Report on the audit of the consolidated financial statements and the separate financial statements of the Cyprus Development Bank Public Company Limited

Opinion

We have audited the accompanying consolidated financial statements of The Cyprus Development Bank Public Company Limited and its subsidiaries (the "Group"), and the separate financial statements of The Cyprus Development Bank Public Company Limited (the "Bank") which are presented on pages 14 to 102 and comprise the consolidated statement of financial position and the statement of financial position of the Bank as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows and the statements of profit or loss and their comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements and separate financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017, and of their financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

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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 *"Auditors' responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code"), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated and separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Provision for impairment of loans and advances	
Refer to note 17 (loans and advances) and to note 2(d) (basis of preparation – adoption of new and revised International Financial Reporting Standards and Interpretations) to the consolidated and separate financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The provision for impairment of loans and advances is a key audit matter due to the size of the carrying amount, the complexity and subjectivity of the timing of the recognition of the provision and the significance of the amount of the provision. The Bank performs an individual impairment assessment and a collective impairment assessment per its provisioning policy. The individual impairment assessment involves judgment on the assumptions made by the Bank regarding the expected future cash flows, especially for those loans and advances which are unsecured or subject to collateral shortfall.	Our audit procedures in this area included, among others: *Provision for impairment* — assessing the controls over the approval of the provision for impairment of loans and advances; — evaluating the methodologies, inputs and assumptions used by the Bank in calculating collective impairment and assessing the adequacy of impairment allowances for individually assessed loans and advances; — performing credit assessment for a sample of exposures focusing on group of loans with different risk characteristics, assessing the adequacy of provision and reasonableness of the estimated future cash flows; — using our own internal specialists to re-perform the collective provision calculations using a challenger model, while testing reasonableness of key inputs used in the collective impairment provision calculation; — assessing collateral values with reference to valuations performed by approved valuators; — evaluating the adequacy of the financial statement disclosures, including whether they reflect the Bank's exposure to credit risk;

The key audit matter	*How the matter was addressed in our audit*
The estimation of collective impairment relates to losses incurred but not yet identified (IBNR). We paid attention to the collective impairment methodologies, focusing on the potential impact of the accuracy of inputs and assumptions. The Bank is required to adopt IFRS 9 Financial Instruments from 1 January 2018 and to disclose the impact of IFRS 9 adoption under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors as presented in note 2(d). IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs. The transition and disclosure to IFRS 9 is considered to be a key audit matter due to the requirement to develop new impairment models and the judgment involved in the relevant inputs.	*IFRS 9 Transition* — assessing the appropriateness of the Bank's business model assessment and solely payment of principal and interest (SPPI) criterion for a sample of financial assets; — using our own internal specialists to assess the appropriateness of the IFRS 9 models developed by the Bank; — assessing the key assumptions and judgments made by management and the appropriateness of key macroeconomic variables and multiple forward economic scenarios, including the assessment of external experts' reports used; — evaluating the adequacy of the financial statement disclosures per IAS 8.

Going concern

Refer to note 2 (a) (going concern) and to note 36 (risk management) to the consolidated and separate financial statements.

The key audit matter	*How the matter was addressed in our audit*
As at 31 December 2016, the Bank was required to comply with additional capital requirement with respect to the total SREP Capital Requirement ("TSCR") ratio. In 2017, the Bank has a capital adequacy ratio marginally below the minimum total capital requirement set by the Central Bank of Cyprus. We focused on the Directors' conclusion that it is appropriate to adopt the going concern basis in preparing these financial statements, as significant steps have been taken to remedy this situation.	Our audit procedures in this area included, among others: — critically assessing the forecasts prepared by the directors by making inquiries and challenging the assumptions used; — obtaining an assessment and making inquiries regarding future capital injections to increase the bank's capital adequacy in addition to the already injected €4m in 2017; — evaluating the accuracy of forecasts by comparing the current year actual results to the prior year forecasts; — considering the adequacy of the group's disclosures in respect of the going concern assumption.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Management Report, but does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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.

With regards to the management report our report is presented in *"Report on other legal and regulatory requirements"* section.

Responsibilities of the Board of Directors for the consolidated and separate financial statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Board of Directors is responsible for assessing the Group's and 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 there is an intention to either liquidate the Group and the Bank or to cease operations, or there is no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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.

Auditors' responsibilities for the audit of the consolidated and separate financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 Group's and 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Bank to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group and standalone audit. We remain solely responsible for our audit opinion.

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

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 consolidated and separate financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors of the Group and the Bank by those charged with governance on 1 June 1963. Our appointment has been renewed annually by shareholder resolution. Our total uninterrupted period of engagement is 55 years covering the periods ended 31 December 1963 to 31 December 2017.

KPMG

Report on other legal and regulatory requirements (continued)

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 11 June 2018.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated and separate financial statements.
- In the light of the knowledge and understanding of the business and the Bank's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated and separate financial statements.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 69 of Law L53(I)/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 auditors' report is Maria A. Papacosta.

Maria A. Papacosta, FCCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

11 June 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Continuing Operations			
Turnover		18.176	19.522
Interest income	4	12.067	15.388
Interest expense	5	(4.700)	(5.802)
Net interest income		7.367	9.586
Fee and commission income	6	2.929	3.033
Fee and commission expense	7	(282)	(432)
Net foreign exchange gains	8	1.267	1.042
Other income	9	1.913	59
		13.194	13.288
Staff costs	10	(6.026)	(6.502)
Other operating expenses	11	(4.164)	(2.734)
Depreciation	12	(634)	(634)
Profit before provisions for impairment		2.370	3.418
Provisions for impairment	12	(4.637)	(4.309)
Loss before tax from continuing operations		**(2.267)**	**(891)**
Tax	13	(675)	(652)
Loss for the year after tax from continuing operations		**(2.942)**	**(1.543)**
Discontinued Operations			
Loss after tax from discontinued operations	14	(1.129)	(496)
Loss for the year		**(4.071)**	**(2.039)**
Loss for the year attributable to:			
Owners of the Bank – continuing operations		(2.928)	(1.539)
Owners of the Bank – discontinued operations		(1.129)	(496)
		(4.057)	(2.035)
Non-controlling interests		(14)	(4)
Loss for the year		**(4.071)**	**(2.039)**
Basic and fully diluted loss per share (cent)	15	(15,63)	(7,84)
Basic and diluted loss per share (cent) from continuing operations	15	(11,28)	(5,93)

The notes on pages 25 to 102 form an integral part of the Financial Statements.

INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Turnover		17.847	19.162
Interest income	4	12.192	15.385
Interest expense	5	(4.695)	(5.798)
Net interest income		7.497	9.587
Fee and commission income	6	2.541	2.585
Fee and commission expense	7	(257)	(425)
Net foreign exchange gains	8	1.288	1.042
Other income	9	1.826	150
		12.895	12.939
Staff costs	10	(5.782)	(6.217)
Other operating expenses	11	(3.998)	(2.590)
Depreciation	12	(620)	(620)
Profit before provisions for impairment		2.495	3.512
Provisions for impairment	12	(4.684)	(4.273)
Loss before tax		**(2.189)**	**(761)**
Tax	13	(669)	(652)
Loss for the year after tax		**(2.858)**	**(1.413)**
Basic and fully diluted loss per share (cent)	15	(11,01)	(5,44)

The notes on pages 25 to 102 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Loss for the year		**(4.071)**	**(2.039)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Exchange (losses)/gains arising on the translation of foreign subsidiary's financial statements		(216)	820
Gains from revaluation of investments available for sale	18/19	409	4
Transfer to the income statement - Disposal of investments available for sale	18	2	(3)
Gains from revaluation of premises		642	
Deferred tax on revaluation of premises		(135)	
Adjustment to subsidiary's reserves relating to prior years		-	(47)
Other comprehensive income for the year net of tax		**702**	**774**
Total comprehensive expense for the year		**(3.369)**	**(1.265)**
Total comprehensive expense for the year attributable to:			
Owners of the Bank - continuing operations		(2.021)	(1.571)
Owners of the Bank - discontinued operations		(1.345)	323
		(3.366)	(1.248)
Non-controlling interests		(3)	(17)
Total comprehensive expense for the year		**(3.369)**	**(1.265)**

The notes on pages 25 to 102 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Loss for the year		**(2.858)**	**(1.413)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Gains from revaluation of investments available for sale	18/19	340	3
(Losses)/gains from revaluation of subsidiaries		(1.375)	39
Transfer to the income statement - Disposal of investments available for sale	18	-	(3)
Gains from revaluation of premises		642	-
Deferred tax on revaluation of premises		(135)	-
Other comprehensive (expense)/income for the year net of tax		**(528)**	**39**
Total comprehensive expense for the year		**(3.386)**	**(1.374)**

The notes on pages 25 to 102 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Note	2017 €'000	2016 €'000
ASSETS			
Cash and balances with central banks	16	96.853	81.957
Balances with other banks	16	119.452	117.848
Loans and advances	17	255.540	270.413
Investments in equities	18	978	637
Investments in debt securities	19	50.671	44.291
Assets of subsidiary company held for sale	22	7.538	12.798
Premises and equipment	23	6.622	5.986
Intangible assets	24	616	617
Receivables and other assets	25	5.752	3.649
Total assets		**544.022**	**538.196**
LIABILITIES			
Bank borrowings	26	2.001	-
Client deposits	27	480.638	459.381
Liabilities of subsidiary company held for sale	22	3.140	6.622
Deferred taxation	28	319	154
Accruals and other liabilities	29	10.674	30.312
Total liabilities		496.772	496.469
Loan capital	30	5.000	-
EQUITY			
Share capital	31	35.164	35.164
Share premium		11.211	11.211
Non-redeemable capital account		4.000	-
Reserves		(8.309)	(4.834)
Equity attributable to shareholders of the parent company		42.066	41.541
Non-controlling interests		184	186
Total equity		42.250	41.727
Total liabilities and equity		**544.022**	**538.196**
Contingent liabilities and commitments	33	63.186	63.424

The Consolidated Financial Statements have been approved by the Board of Directors on 11 June 2018.

Mr. Kyriacos Christofi Chairman

Mr. Costas Argyrides Chief Executive Officer

Mr. Andreas Loizou Director

Mrs. Stella Avraam Chief Financial Officer

The notes on pages 25 to 102 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Note	2017 €'000	2016 €'000
ASSETS			
Cash and balances with central banks	16	96.853	81.957
Balances with other banks	16	119.357	117.693
Loans and advances	17	255.540	270.413
Investments in equities	18	671	351
Investments in debt securities	19	50.671	44.291
Subsidiary company held for sale	21	4.398	6.176
Investments in subsidiary companies	20	4.511	812
Premises and equipment	23	6.597	5.949
Intangible assets	24	616	617
Receivables and other assets	25	1.101	3.019
Total assets		**540.315**	**531.278**
LIABILITIES			
Bank borrowings	26	2.001	-
Client deposits	27	480.638	459.381
Deferred taxation	28	319	154
Accruals and other liabilities	29	10.309	30.202
Total liabilities		493.267	489.737
Loan capital	30	5.000	-
EQUITY			
Share capital	31	35.164	35.164
Share premium		11.211	11.211
Non-redeemable capital account		4.000	
Reserves		(8.327)	(4.834)
Total equity		42.048	41.541
Total liabilities and equity		**540.315**	**531.278**
Contingent liabilities and commitments	33	63.186	63.424

The Financial Statements have been approved by the Board of Directors on 11 June 2018.

Mr. Kyriacos Christofi Chairman

Mr. Costas Argyrides Chief Executive Officer

Mr. Andreas Loizou Director

Mrs. Stella Avraam Chief Financial Officer

The notes on pages 25 to 102 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to the parent company's owners									
2017	Share capital €'000	Share premium €'000	Non-redeemable Capital account €'000	Non distributable reserve €'000	Revaluation reserve €'000	Exchange difference reserve €'000	Revenue reserve €'000	Total €'000	Non controlling interests €'000	Total €'000
Balance 1 January	35.164	11.211	-	90	1.088	(2.610)	(3.402)	41.541	186	41.727
Comprehensive income										
Loss for the year	-	-	-	-	-	-	(4.057)	(4.057)	(14)	(4.071)
Other comprehensive income										
Exchange differences	-	-	-	-	-	(216)	-	(216)	-	(216)
Revaluation of premises	-	-	-	-	642	-	-	642	-	642
Revaluation of investments available for sale	-	-	-	-	357	-	-	357	12	369
Revaluation of debt securities available for sale	-	-	-	-	40	-	-	40	-	40
Deferred tax	-	-	-	-	(135)	-	-	(135)	-	(135)
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	-	(4)	-	4	-	-	-
Transfer to the income statement – disposal of investments available for sale	-	-	-	-	2	-	-	2	-	2
Adjustment to subsidiary's reserves relating to prior years	-	-	-	-	-	-	1	1	-	1
Total comprehensive income	-	-	-	-	902	(216)	(4.052)	(3.366)	(2)	(3.368)
Transactions with owners of the Bank										
Contributions and distributions										
New capital	-	-	4.000	-	-	-	-	4.000	-	4.000
Defence Tax on deemed dividend distribution	-	-	-	-	-	-	(109)	(109)	-	(109)
Total contributions and distributions	-	-	4.000	-	-	-	(109)	3.891	-	3.891
Balance 31 December	35.164	11.211	4.000	90	1.990	(2.826)	(7.563)	42.066	184	42.250

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a Prospective Investor. As per the terms of the said agreement, an amount of €4 million was paid by the Prospective Investor in a non-redeemable "capital account" which may only be employed as common equity by the issue of share capital for the Bank. In case the Prospective Investor does not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

The notes on pages 25 to 102 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

2016	Attributable to the parent company's owners								
	Share capital €'000	Share premium €'000	Non distributable reserve €'000	Revaluation reserve €'000	Exchange difference reserve €'000	Revenue reserve €'000	Total €'000	Non controlling interests €'000	Total €'000
Balance 1 January	35.164	11.211	90	1.099	(3.430)	(1.307)	42.827	203	43.030
Comprehensive income									
Loss for the year	-	-	-	-	-	(2.035)	(2.035)	(4)	(2.039)
Other comprehensive income									
Exchange differences	-	-	-	-	820	-	820	-	820
Revaluation of investments available for sale	-	-	-	4	-	-	4	-	4
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	(12)	-	12	-	-	-
Transfer to the income statement – disposal of investments available for sale	-	-	-	(3)	-	-	(3)	-	(3)
Adjustment to subsidiary's reserves relating to prior years	-	-	-	-	-	(40)	(40)	(7)	(47)
Total comprehensive income	-	-	-	(11)	820	(2.063)	(1.254)	(11)	(1.265)
Transactions with owners of the Bank									
Contributions and distributions									
Defence Tax on deemed dividend distribution	-	-	-	-	-	(32)	(32)	(6)	(38)
Balance 31 December	35.164	11.211	90	1.088	(2.610)	(3.402)	41.541	186	41.727

Non-distributable reserve

The non-distributable reserve comprises of amounts transferred from revenue reserve by the foreign subsidiary to cover possible future losses in accordance with Russian legislation.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments available for sale and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 25 to 102 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

2017	Share capital €'000	Share premium €'000	Non-redeemable Capital account €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January	35.164	11.211	-	(2.489)	(2.345)	41.541
Comprehensive income						
Loss for the year	-	-	-	-	(2.858)	(2.858)
Other comprehensive income						
Deferred tax on revaluation of premises	-	-	-	(135)	-	(135)
Revaluation of investments available for sale	-	-	-	300	-	300
Revaluation of debt securities available for sale	-	-	-	40	-	40
Revaluation of investment in subsidiary companies	-	-	-	(1.375)	-	(1.375)
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	(4)	4	-
Revaluation of premises	-	-	-	642	-	642
Total comprehensive income	-	-	-	(532)	(2.854)	(3.386)
Transactions with owners of the Bank						
Contributions and distributions						
New capital	-	-	4.000	-	-	4.000
Defence tax on deemed dividend distribution	-	-	-	-	(107)	(107)
Total contributions and distributions	-	-	4.000	-	(107)	3.893
Balance 31 December	35.164	11.211	4.000	(3.021)	(5.306)	42.048

Non-redeemable Capital account

On 4 August 2017, an agreement was signed between the Bank and a Prospective Investor. As per the terms of the said agreement, an amount of €4 million was paid by the Prospective Investor in a non-redeemable "capital account" which may only be employed as common equity by the issue of share capital for the Bank. In case the Prospective Investor does not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

2016	Share capital €'000	Share premium €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January	35.164	11.211	(2.516)	(944)	42.915
Comprehensive income					
Loss for the year	-	-	-	(1.413)	(1.413)
Other comprehensive income					
Revaluation of investments available for sale	-	-	3	-	3
Revaluation of investment in subsidiary companies	-	-	39	-	39
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	(12)	12	-
Transfer to the income statement – disposal of investments available for sale	-	-	(3)	-	(3)
Total comprehensive income	-	-	27	(1.401)	(1.374)
Balance 31 December	35.164	11.211	(2.489)	(2.345)	41.541

Revaluation reserve

The revaluation reserve relates to the revaluation of investments available for sale and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 25 to 102 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year from continuing operations		(2.942)	(1.543)
Loss for the year from discontinued operations		(1.129)	(496)
Adjustments for:			
Interest from debt securities	4	(536)	(855)
Loss on disposal of premises and equipment	12	9	41
Depreciation of premises and equipment	12	431	395
Depreciation of intangible assets	12	203	239
Net foreign exchange gains		(1.267)	(1.042)
Impairment losses and provisions to cover credit risk	12	4.637	4.309
Tax	13	675	652
Cash flows from operating activities before changes in working capital and other items of the statement of financial position		81	1.700
Increase in balances with Central Banks		(229)	(1.074)
Decrease/(increase) in placements with other banks		2.820	(2.820)
(Increase)/decrease in loans and advances		(1.782)	37.362
Decrease in equity investments		30	131
Increase in client deposits		21.257	30.112
Increase/(decrease) in bank borrowings		2.001	(390)
(Decrease)/increase in working capital and other items of the statement of financial position		(3.616)	18.328
Net cash from operating activities before tax		20.562	83.349
Taxes and special contributions paid		(646)	(641)
Net cash from operating activities		19.916	82.708
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of discontinued operations, net of cash disposed		-	138
Additions of premises and equipment	23	(434)	(705)
Additions of intangible assets	24	(202)	(260)
Acquisition of investments in debt and equity securities		(6.380)	(23.393)
Interest from debt securities	4	536	855
Net cash to investing activities		(6.480)	(23.365)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from non-redeemable capital account		4.000	-
Issue of loan capital		5.000	-
Net cash from financing activities		9.000	-
Net increase in cash and cash equivalents		22.436	59.343
Effect of exchange rate fluctuations on cash and cash equivalents		(7.462)	1.359
Cash and cash equivalents at the beginning of the year		195.911	135.209
Cash and cash equivalents at the end of the year	35	210.885	195.911

The notes on pages 25 to 102 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(2.858)	(1.413)
Adjustments for:			
Interest received from debt and equity securities	4	(536)	(855)
Loss on disposal of premises and equipment	12	9	41
Depreciation of premises and equipment	12	417	382
Depreciation of intangible assets	12	203	238
Net foreign exchange gains		(1.288)	(1.042)
Impairment losses and provisions to cover credit risk	12	4.684	4.273
Tax	13	669	652
Operating profit before working capital changes		1.300	2.276
Increase in balances with Central Banks		(229)	(1.074)
Decrease/(increase) in placements with other banks		2.820	(2.820)
(Increase)/decrease in loans and advances		(1.782)	30.209
(increase)/decrease in equity investments		(20)	130
Increase in client deposits		21.257	30.112
Increase/(decrease) in bank borrowings		2.001	(390)
Increase/(decrease) in working capital and other items of the statement of financial position		(4.749)	31.850
Net cash from operating activities before tax		20.598	90.293
Taxes and special contributions paid		(640)	(642)
Net cash flow from operating activities		19.958	89.651
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of subsidiary		-	308
Additions of premises and equipment	23	(434)	(704)
Proceeds from disposal of premises and equipment		18	-
Additions of intangible assets	24	(202)	(260)
Acquisition of investments in debt and equity securities		(6.380)	(23.393)
Interest from debt securities	4	536	855
Net cash to investing activities		(6.462)	(23.194)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from non-redeemable capital account		4.000	-
Issue of loan capital		5.000	-
Net cash from financing activities		9.000	-
Net increase in cash and cash equivalents		22.496	66.457
Effect of exchange rate fluctuations on cash and cash equivalents		(7.462)	(65)
Cash and cash equivalents at the beginning of the year		195.756	129.364
Cash and cash equivalents at the end of the year	35	210.790	195.756

The notes on pages 25 to 102 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

The principal activities of the Bank, which remained the same as in the previous year, are commercial banking operations.

The principal activities of the Russian subsidiary company, which remained the same as in the previous year, Joint Stock Company cdbbank, are commercial banking operations.

The principal activities of the subsidiary company, Global Capital Securities and Financial Services Ltd, which remained the same as in the previous year, are portfolio management as well as the provision of financial advisory, investment banking and brokerage services.

The consolidated financial statements of the Group are available at the Cyprus Development Bank Public Company Ltd Registered Office (50 Arch. Makarios III Avenue, Alpha House, 1065 Nicosia, Cyprus).

2. BASIS OF PREPARATION

(a) Going concern

These consolidated and separate financial statements have been prepared under the going concern basis, following the Directors' assessment that the Group and the Bank will continue as a going concern. The conditions that existed during 2017 and the developments up to the date of approval of these Financial Statements have been considered by the Directors in the going concern assessment.

The Directors believe that the Group and the Bank are taking all necessary measures to maintain their viability and the development of their business in the current economic environment.

The Directors, taking into consideration the factors described below are satisfied that the Group has the resources to continue in business for a period of at least 12 months from the date of approval of the Financial Statements. The going concern principle is appropriate for the reasons set out below:

- The common Equity Tier 1 (CET 1) ratio and the total capital ratio of the Group stood at 12,75% and 14,29% respectively (after taking into account the administrative fine levied by the Central Bank of Cyprus on 21 May 2018 amounting to €608K net of a discount of 15% due to early settlement). Although the total capital ratio of the Group is marginally lower than the minimum total capital requirement of 14,45% set by the Central Bank of Cyprus for 2017, the Directors continued to actively take all the necessary actions to ensure that the Group maintains a healthy capital base to support the Group's operations. To this end an agreement was signed between a Prospective Investor and the Bank for the issue of shares by the Bank to the new investor, and a due diligence was carried out beginning of 2018 (details set out in note 31).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(a) Going concern (continued)

- The Bank enjoys a strong liquidity position and is compliant with all the regulatory liquidity ratios. The LCR ratio stood at 416% at 31 December 2017 and is well above the minimum requirement of 100%. The Group is also in compliance with the LCR add-on, which was introduced by the CBC as a macro-prudential measure and is applicable from 1 January 2018.

- Following clearances obtained from the authorities, namely the European Central Bank and the Cyprus Securities and Exchange Commission, as well as the rejection on 30 April 2018 by the District Court of Nicosia, of the application of shareholders Loramina Trading Ltd and Dayarona Trading Ltd for an interim order restraining the transfer of their 9.728.869 Class B shares to other shareholders, the Bank proceeded with the registration of the transfer of 8.755.982 Class B shares of Loramina Trading Ltd and 972.887 Class B shares of Dayarona Trading Ltd to the existing shareholders Path Holdings Ltd., Leon Investment S.A., Constantinos Shiacolas, Delphis Investments Ltd, Leonidas Ioannou, Intergaz Ltd, Panikos Katsouris and Antonios Yerolemou. The shareholding structure after the transfers is presented in note 38 to the financial statements.

(b) Statement of compliance

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 and are for the year ended 31 December 2017.

(c) Basis of measurement

The Financial Statements have been prepared on a historical cost basis, except for properties held for own use, available-for-sale investments and derivative financial instruments which have been measured at fair value and stock of properties measured at the lower of cost or net realisable value.

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2017, the Bank adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. This adoption did not have a material effect on the financial statements of the Group and of the Bank.

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2017. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these Standards early.

<u>(i) Standards and Interpretations adopted by the EU</u>

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

(i) Standards and Interpretations adopted by the EU (continued)

- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
- IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (IFRS 1 and IAS 28)).
- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
- IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).
- IAS 19 (Amendments) "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019).
- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020).
- IFRS 10 (Amendments) and IAS 28 (Amendments) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective date postponed indefinitely).

The Management Body expects that the adoption of these standards and interpretations in future periods will not have a material effect on the financial statements of the Group and of the Bank except from the adoption of IFRS 9 that could change the classification and measurement of financial assets as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment'

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. It replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting as detailed further below.

In October 2017, the IASB issued 'Prepayment Features with Negative Compensation' (amendments to IFRS 9) effective for annual periods beginning on or after 1 January 2019 but not yet endorsed by the EU. The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortised cost or at fair value through other comprehensive income (FVOCI), depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). The amendment also confirms the modification accounting of financial liabilities under IFRS 9. Adoption of the amendment is not expected to impact the financial statements.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018, and will early adopt the aforementioned amendments to IFRS 9 on the same date.

Comparative information on transition

The new requirements of IFRS 9 will be applied retrospectively by adjusting the Group's balance sheet on the date of transition i.e. 1 January 2018, and as permitted by IFRS 9, in the 2018 financial statements the Group's 2017 comparative figures will not be restated but rather presented on an IAS39 basis.

Impact assessment

Based on available information and current implementation status, the Management Body currently estimates that the impact of adopting IFRS 9 on the equity attributable to shareholders on 1 January 2018 will amount to a decrease of c€3,6 million which will be recognised through equity rather than the consolidated income statement as of the implementation date of 1 January 2018. This impact primarily arises due to the change in provisions for loan impairment on adoption of IFRS 9. The above estimate is subject to change because:

- IFRS 9 requires the Group to revise its processes and internal controls and these changes are not yet complete;
- The Group is refining and finalising its expected credit loss (ECL) calculations; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its 2018 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

Regulatory capital transitional arrangements

The Group has elected to apply the provisions of EU Regulation 2017/2395 for gradual phase-in over a five year period of the impact on regulatory capital arising from the difference between the impairment amount as calculated on initial application of IFRS 9 with the amount recognised at 31 December 2017 in accordance with IAS 39. The amount to be added back to regulatory own funds each year will decrease based on weighting factors specified in the said EU Regulation. For the year 2018 the impact on the capital ratios will be 5% of the aforementioned difference in impairment amounts.

(i) Classification and measurement of financial assets and liabilities

IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables, and available for sale, and introduces instead a new classification and measurement approach for financial assets that reflects the entity's business model for managing financial assets and their contractual cash flow characteristics. More specifically, IFRS 9 requires financial assets to be classified into one of the following three measurement categories:

- amortised cost
- fair value through other comprehensive income (FVOCI)
- fair value through profit or loss (FVTPL).

Financial assets will be measured at amortised cost if they meet both of the following conditions and are designated at fair value through profit and loss:

- they are held within a business model whose objective is to hold these assets in order to collect contractual cash flows, and
- these contractual cash flows represent solely payments of principal and interest (SPPI).

Financial assets will be measured at FVOCI and not measured at FVTPL if:

- they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- their contractual cash flows represent solely payments of principal and interest (SPPI).

An entity may at initial recognition, designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value through other comprehensive income (OCI). This election is made on an investment-by-investment basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

<u>Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)</u>

(i) Classification and measurement of financial assets and liabilities (continued)

Under IFRS 9, embedded derivatives in contracts where the host is a financial asset in the scope of the standard are no longer separated from the host. Instead, the hybrid financial instrument as a whole is assessed for classification.

For financial liabilities IFRS 9 retains most of the existing requirements. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to the income statement unless such a presentation would create or enlarge an accounting mismatch. Under IAS 39, all fair value changes of liabilities designated at FVTPL are recognised in the income statement unless this would create or enlarge an accounting mismatch.

Business model assessment

Business models are determined on the date of initial application based on fact and circumstances that existed on 1 January 2018. The Group assesses the business model at a portfolio level. The portfolio level is determined at the aggregation level that reflects how the Group manages its financial assets. Information that is considered in determining the business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management and (iii) the frequency, volume and timing of sales in prior periods and sales expectation for future periods, including the reasons for such sales.

Financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Solely Payments of Principal and Interest (SPPI) assessment

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether individual financial assets' cash flows represent solely payments of principal and interest (SPPI test). For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether contractual cash flows are SPPI, the Group considers the terms that could change the contractual cash flows so that it would not meet the condition for SPPI, including: (i) contingent and leverage features, (ii) interest rates which are beyond the control of the Group or variable interest rate consideration, (iii) features that could modify the time value of money, (iv) prepayment and extension options, (v) terms that limit the Group's claim to cash flows from specific assets e.g. non-recourse arrangements and (vi) convertible features.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(i) Classification and measurement of financial assets and liabilities (continued)

Impact assessment

For the purpose of the transition to IFRS 9, the Group is carrying out a business model assessment across various portfolios and a review of the contractual terms (SPPI review) for its loans and advances and debt instruments portfolios to determine any potential changes to the classification and measurement. The business model assessment and the SPPI review are not expected to result in any significant changes compared to how financial assets are measured under IAS 39. In particular:

- Loans and advances to banks and customers that are classified as loans and receivables and measured at amortised cost under under IAS 39, are also expected to be measured at amortised cost under IFRS 9;
- Debt securities classified as available-for-sale under IAS 39, are expected to be measured at FVOCI;
- held-to-maturity investment securities that are measured at amortised cost under IAS 39, are expected to be measured at amortised cost or FVOCI depending on the business model within which they are held;
- Trading and derivative assets that are measured at FVTPL under IAS 39 are also expected to be measured at FVTPL under IFRS 9;
- Equity securities classified as available-for-sale under IAS 39 are expected to be measured at FVTPL under IFRS 9.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This change requires more judgement, estimates, and assumptions in considering information for current and future provisioning. The ECL model will also result in earlier recognition of credit losses and thus a higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future.

The new impairment model, will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Under IFRS 9 no impairment losses need to be recognised on equity investments.

Upon initial recognition of instruments in scope of the new impairment principles, the Group will record a loss allowance equal to 12-month ECL, being the ECL that results from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk since initial recognition, a loss allowance equal to lifetime ECL will be recognised, arising from default events that are possible over the expected life of the instrument. Under the 'three-stage' model introduced by IFRS 9, financial assets with no significant changes in credit risk since initial recognition, for which 12-month ECL are recognised, will be in 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk but not credit imparied will be allocated in 'stage 2', while financial assets that are considered to be credit impaired will be in 'stage 3'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

When the criteria for stage 2 classification are no longer met, and the financial asset is not credit impaired, it will be reclassified to stage 1. In addition, subsequent transfers from stage 3 to stage 2 will take place when the financial asset ceases to be credit impaired as defined further below.

The loss allowance for purchased or originated credit impaired (POCI) financial assets will always be measured at an amount equal to lifetime ECL, as explained below. Purchased or originated credit impaired (POCI) financial assets include assets purchased at a deep discount and substantially modified assets arising from de-recognition of the original asset that are considered originated credit impaired.

Interest revenue recognition

The Group will recognise interest income of financial assets at stage 1 or 2, by applying the effective interest rate (EIR) on their gross carrying amount, while for financial assets at stage 3 as well as POCI by applying EIR on their net carrying amount.

Significant increase in credit risk

As noted above financial assets that experience a significant increase in credit risk since initial recognition will be in stage 2. In assessing whether a financial asset has experienced a significant increase in credit risk since initial recognition, the Group intends to use a combination of quantitative, qualitative and backstop criteria indicatively including:

Quantitative
- Relative changes on the residual lifetime probability of default

Qualitative
- Previous arrears within the last 24 months
- Actual or expected forbearance or payment holidays
- Actual or expected significant change in operating results of the borrower
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Significant change in collateral value which is expected to increase risk of default
- Early warning signs of cashflow / liquidity problems such as delay in servicing trade creditors

Backstop
- As required by IFRS 9, the Group will consider as a backstop criterion that a significant increase in credit risk occurs when contractual payments are more than 30 days past due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

Backstop (continued)

Hence, upon transition, the Group, considers all performing forborne loans as stage 2, along with any performing exposures that have been assessed to experience a significant increase in credit risk since initial recognition.

The Group will classify all remaining financial assets, which are not classified at stage 2, 3, or POCI, in stage 1, measured based on 12-month ECL.

Credit-impaired exposures

As noted above credit-impaired exposures are in stage 3 attracting lifetime ECL. The Group considers as credit-impaired and hence in default all non-performing exposures (NPE) as per regulatory guidance. According to the European Banking Authority (EBA) standards and European Central Bank's (ECB) Guidance to Banks on NPE of March 2017, NPEs are defined as those exposures that satisfy one of the following conditions:

- The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.
- Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due.
- Performing forborne exposures under probation for which additional forbearance measures are extended.
- Performing forborne exposures under probation that present more than 30 days past due within the probation period.

Accordingly, upon transition, the Group considers all non-performing exposures in accordance with the regulatory definition as credit-impaired and classifies those exposures at stage 3 for financial reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

Measurement of expected credit losses

As described above, if the credit risk of a financial instrument that is not classified as POCI has not increased significantly at the reporting date compared to its origination date, the loss allowance will be measured at an amount equal to 12 – month ECLs. The 12 – month ECLs represent a portion of lifetime losses that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months.

In cases where a significant increase in credit risk on a financial instrument has been identified at the reporting date since initial recognition date, the measurement of ECLs will be conducted on a lifetime basis. Lifetime ECLs represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.

The measurement of ECLs will be an estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered.

For the purposes of measuring ECL, the Group will estimate expected cash shortfalls, which reflect the cash flows expected from all possible sources including collateral and other credit enhancements that are part of the contractual terms and are not recognised separately. In the case of a collateralised financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable.

ECLs will be calculated over the maximum contractual period over which the Group is exposed to credit risk. The maximum contractual period is defined based on the substantive terms of the instrument, including the Group's ability to demand repayment or cancellation and the customer's ability to require extension. However, for revolving credit facilities (i.e. those that include both a loan and an undrawn commitment component) the period of exposure is determined in accordance with the Group's expected credit risk management actions to mitigate credit risk, including terminating or limiting credit exposure. In doing so, the Group will consider its normal credit risk mitigation process, its past practice, future intentions and expected credit risk mitigation actions, the period over which the Group was exposed to credit risk on similar instruments, and the length of time for defaults to occur on similar instruments following a significant increase in credit risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

Measurement of expected credit losses (continued)

ECLs on individually large credit-impaired loans, above pre-defined materiality thresholds set in accordance with the Group's risk management policy are measured individually. This incorporates borrower specific information, collective historical experience of losses and forward-looking macroeconomic information.

ECLs on financial guarantee contracts will be the expected payments to reimburse the holder of the guarantee less any amounts that the Group expects to recover.

ECL Key inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF). Generally, the Group intends to derive these parameters from internally developed statistical models and observed point-in-time and historical data.

The PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime. In accordance with IFRS 9, the Group will use point-in-time unbiased PDs that will incorporate forward-looking information and macroeconomic scenarios.

EAD represents the exposure that the Group expects to be owed at the event of default. The EAD of a financial asset will be the gross carrying amount at default. In estimating the EAD, the Group will use historical observations and forward looking forecasts to reflect payments of principal and interest and any potential drawdowns on lending commitments.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure and is the difference between the contractual cash flows due and those that the Group expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD.

The CCF factor is used to convert the amount of a credit line and other off-balance sheet amounts to an EAD amount. The regulatory CCF factors are used as an approximation to the actual ones to the EAD at each period, reducing the latter amount accordingly.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

Forward-looking inputs

The Group will incorporate forward-looking information when assessing whether credit risk has increased significantly since initial recognition and also when measuring ECL. This will involve use of external forecasts to formulate both a 'base-case' view of key economic variables (e.g. GDP Growth, unemployment, house prices) as and two or more additional economic scenarios representing a more pessimistic / optimistic outcome. These scenarios will be probability-weighted to achieve an unbiased estimate of ECL by linking economic variables to default and loss rates.

(iii) Hedge accounting

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. Under the new model, more hedging strategies may qualify for hedge accounting, new hedge effectiveness requirements apply and discontinuation of hedge accounting will be allowed only under specific circumstances. The IASB currently has a separate project for the accounting of macro hedging activities. Until the above project is completed, entities have an accounting policy choice to continue applying the hedge accounting requirements in IAS 39. The Group intends to elect to continue applying IAS 39. However, the Group will provide the expanded disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

(iv) Comparative information on transition

The new requirements of IFRS 9 will be applied retrospectively by adjusting the Group's Financial Position on the date of transition on 1 January 2018. The Group intends to apply the exemption not to restate comparative figures for prior periods, therefore the Group's 2017 comparatives in the 2018 financial statements will be presented on an IAS 39 basis.

(v) Derecognition and loan modifications

The derecognition requirements of IAS 39 were incorporated into the IFRS 9. The contractual terms of a loan may be modified following various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximize recovery. In the event that the terms and conditions of a financial assets are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. A derecognition of a financial asset and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgments

The preparation of financial statements in accordance with IFRSs requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the related amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Provisions for impairment of loans and advances to customers

The Bank reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement. In particular, Management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required and the calculation of the impairment allowance involves the use of judgment. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery.

The Bank may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates. To estimate the level of provision for impairment, assumptions have been made about the future changes in property values, as well as the timing for the realization of the collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made for future changes in property values.

The Bank assesses Loans and advances at both a specific and collective level. Loans and advances are firstly individually assessed for specific impairment. Loans not found to be specifically impaired are then assessed collectively to estimate incurred but not reported losses (IBNR). The collective provision process uses estimates based on the past historic data of the Bank. Such estimates include probabilities of default (PDs), loss given default (LGD) and emergence period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)

(f) Fair value of financial assets and liabilities

The Group and the Bank have applied the new definition of fair value as set out in note 32. The change had no significant impact on the measurements of the Group's and the Bank's assets and liabilities, but the Group and the Bank have included new disclosures in the financial statements, which are required under IFRS 13.

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

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

(g) Functional and presentation currency

The financial statements of the Group and of the Bank are for the year ended 31 December 2017 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus. The functional currency of the foreign subsidiary held for sale is Russian Rubles.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in respect of items which are considered material for the results for the year and the reporting of the financial condition of the Group and the Bank, are stated below.

Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Bank, and of its subsidiary companies (note 20), which together are referred to as the "Group".

All inter-company transactions and balances and any unrealised income and expenses between the parent company and the subsidiary companies of the Group are eliminated on consolidation.

Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Group at the rates ruling at the date of the transaction. Other assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange ruling at the end of the year. Exchange differences arising from the above are dealt with in the income statement.

The income statement of the foreign subsidiary company is translated into Euro using the mid-rate of exchange of the year. The assets and liabilities of the foreign subsidiary are translated into Euro at the rate of exchange ruling at the end of the year. The exchange difference arising from the above is dealt with directly in exchange difference reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

The Group's and the Bank's turnover comprises interest income, fee and commission income, foreign exchange gains, dividends and profits on disposal of equity investments, fees from services rendered and other income.

Income recognition

Income is recognized when it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Specific recognition criteria apply for different types of income as follows:

Interest income

Interest income is recognised in the income statement using the effective interest method. Interest income on impaired loans and advances is suspended and included in the accumulated impairment losses on the value of loans and advances.

Fee and commission income

Fee and commission income is recognised on the basis of the progress of execution and completion of the transaction so as to match it with the cost of providing the service.

Dividend

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

Loans and advances

Loans and advances originated by providing money directly to the borrower are measured initially at cost, which is the fair value of the consideration given to originate the loan plus transaction costs. Loans and advances are subsequently measured at their amortised cost using the effective interest rate method.

The amortised cost of a loan is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Loans and advances are stated on the statement of financial position of the Bank and of the Group net of provisions for impairment of doubtful accounts. Loans and advances are considered doubtful when there are objective indications that the Group will not collect all amounts due in accordance with the contractual terms, unless such loans and advances are secured by tangible collateral or other indications exist that the amounts due will be collected.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances (continued)

The Group considers evidence of impairment for loans and advances at both a specific and collective level. Loans and advances are individually assessed for specific impairment. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not reported yet (IBNR).

Provisions are made to reduce doubtful accounts to their estimated recoverable amount. The amount of the specific provision is the difference between the book value and the estimated recoverable amount of the loan taking into account the estimated recoverable amounts from tangible collateral and guarantees. In assessing collective impairment, the Group applies probabilities of default and loss given defaults, based on management's judgment of the current economic and credit conditions. The emergence period which indicates the approximate time required for non-performance to be identified is also considered in the calculation of collective impairment. Loans and advances are written off to the extent that their recovery is no longer feasible. Doubtful accounts are monitored continuously and provisions for doubtful accounts are released through income statement, only when events and factors make the collection of doubtful amounts feasible.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group or the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account the cost of acquisition, any unamortised premium or discount and deducting any impairment loss. In case of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for, accordingly.

Available-for-sale investments

Investments available-for-sale include investments intended to be held for an indefinite period of time and can be sold in response to changes in their market value, risks and liquidity requirements.

These investments are initially recorded at cost on the date of acquisition and are subsequently measured at fair value. Unrealised gains and losses from changes in fair value are recognized directly in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale investments (continued)

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

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

If, in a subsequent period, the fair value of an impaired available for sale investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income.

Subsidiary companies

Subsidiary companies are investees controlled by the Group. The Group “controls” an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The subsidiary companies are consolidated using the acquisition method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated statement of financial position. The investments in the subsidiary companies are fully eliminated on consolidation in the consolidated financial statements of the Group.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

The investments in the subsidiary companies are stated in the Bank's separate financial statements at their assessed fair value. Adjustments to the assessed fair value of subsidiary companies are recognised in other comprehensive income reserve.

On the disposal or partial disposal of an investment in a subsidiary company, the difference between the sale proceeds and the book value of the shareholding disposed is transferred to the income statement. Any related cumulative gain or loss previously recognized in other comprehensive income is transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment

Freehold premises are used in the operations of the Group and are stated at valuation on the basis of open market value for existing use as assessed by independent professional valuers less accumulated depreciation. Revaluation surpluses or deficits are credited or debited to the revaluation reserve. Any deficit not covered by accumulated revaluation surpluses in the revaluation reserve for the specific asset, is written off to the income statement.

Equipment is measured at cost less accumulated depreciation. Material expenses which add future economic benefit are capitalised whereas other expenses are written off to the income statement.

Depreciation on premises is provided on the straight-line method in equal annual instalments over a period of 33 years. No depreciation is provided on land.

Depreciation on equipment is provided on the straight-line method in equal annual instalments over their estimated useful life, which ranges from five to ten years.

On disposal of premises and equipment, the difference between the net proceeds and the net book value is transferred to the income statement. Any related balance in the revaluation reserve is taken to revenue reserve.

Intangible assets

Intangible assets include computer software and goodwill.

Computer software is stated at cost less accumulated depreciation. Depreciation on computer software is provided on the straight-line method in equal annual installments over their estimated useful life, which ranges from three to five years.

Maintenance expenses of computer software are written off to the income statement in the year in which they are incurred.

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment annually as at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash, non-obligatory balances with central banks, deposits with banks and other securities that which are highly liquid and readily convertible into known amounts of cash or are repayable within three months from the date of their acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Client deposits

Client deposits are initially measured at the fair value of the consideration received, which equals the amount deposited by the client minus incremental direct transaction costs. Subsequently, client deposits are measured at their amortised cost using the effective interest rate method.

Loan capital

Loan capital issued by the Bank is initially recorded at fair value, which equals the amount received less transaction costs directly attributable to the issue, and subsequently is measured at its amortised cost using the effective interest rate method.

Share capital

The Bank's own shares are stated as equity.

Guarantees

Guarantees issued comprise performance and tender guarantees and other letters of guarantee given to clients and represent irrevocable obligations of the Bank to pay a specific amount to the beneficiary only if the terms of the specific contractual obligation are not adhered to.

Liabilities arising from guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Derivatives

Derivatives consist of forward exchange rate contracts.

Derivatives are initially recorded at cost and then revalued at their assessed fair value. Changes in the fair value of derivatives are recognised in the income statement. The assessed fair value is estimated on the basis of current prices and of discounted cash flows. Derivatives are classified as assets when their value is positive and as liabilities when their fair value is negative.

All derivatives are recorded as trading derivatives and adjustments to their assessed fair value are included in the income statement under net foreign exchange gains.

Retirement benefits to staff

The Bank operates a defined benefit contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2016: 9,5%) and employee contributions of 3% - 10% of the employees gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Provision for taxation is made in accordance with the tax legislation and tax rates applicable in Cyprus and the Russian Federation, where the Group carries on operations. Corporation tax in Cyprus is calculated at the rate of 12,5%. Corporation tax in the Russian Federation is calculated at the rate of 20%. Provision for deferred taxation is also made for all temporary differences between the carrying values of assets and liabilities for financial reporting purposes and their tax base. Deferred taxation is calculated using the tax rates that were applicable at the end of the year. Any deferred tax assets arising from deductible temporary differences are recognised only to the extent that it is expected that taxable profits will be available in the future. Taxation is recognised in the income statement unless it relates to items recognised directly in equity or in the statement of comprehensive income. Tax assets and liabilities are offset if they relate to taxes imposed by the same tax authority provided it allows such settlements and provided the intention of the Group is to either settle the net amount or realise the asset and settle the obligation simultaneously.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

The loss from impairment of goodwill is not reversible. The loss from impairment of other non-financial assets is reversible only to the extent that the carrying value does not exceed net carrying value that the non-financial asset would have if the impairment loss was not recognised.

Stock of properties

The Bank in its normal course of business acquires properties in exchange of debt, which are held either directly or by special purpose entities (SPEs) set up and controlled by the Bank for the sole purpose of managing these properties with an intention to be disposed of.

Stock of properties is recognised in the statement of financial position and is included under “receivables and other assets”, reflecting the substance of these transactions. The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of properties is measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the income statement in the period in which the write down occurs. Profit or loss from disposal of stock of properties held for sale, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Net profit or loss from discontinued operations includes the net total of operating profit and loss after tax from discontinued operations.

Assets held for sale

The Group classifies assets as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Bank is committed to a sale plan involving loss of control of a subsidiary, the total assets and liabilities of that subsidiary are classified as held for sale, regardless of whether non-controlling interest in its former subsidiary after the sale is retained. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and gains or losses from subsequent measurement are recognised in the income statement. A gain is only recognised to the extent that it is not in excess of the cumulative impairment loss that has been recognised.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Comparatives

Comparatives presented in the Financial Statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. INTEREST INCOME

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Loans and advances	10.584	14.226	10.711	14.226
Balances with banks	947	307	945	304
Debt securities	536	855	536	855
	12.067	15.388	12.192	15.385

Interest from loans and advances includes interest on impaired loans and advances amounting to €869 thousand (31 December 2016: €2.332 thousand).

5. INTEREST EXPENSE

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Client deposits	4.491	5.420	4.491	5.418
Balances with banks	209	382	204	380
	4.700	5.802	4.695	5.798

6. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Credit related fees and commissions	546	555	546	555
Fund transfer commissions	1.116	1.428	1.116	1.428
Other banking fees and commissions	1.267	1.050	879	602
	2.929	3.033	2.541	2.585

7. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	257	425	257	425
Brokerage fees and commissions	25	7	-	-
	282	432	257	425

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. NET FOREIGN EXCHANGE GAINS

Net foreign exchange gains comprise gains less losses related to the conversion of monetary assets and liabilities in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluations of foreign exchange derivatives.

9. OTHER INCOME

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Profit from disposal of subsidiary (note 20)	-	-	-	105
Profit from disposal of available for sale investments	-	1	-	-
Profit from disposal of held-to-maturity investments	1.799	-	1.799	-
Other income	114	58	27	45
	1.913	59	1.826	150

10. STAFF COSTS

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Salaries	5.015	4.888	4.777	4.633
Employer's contributions	610	688	604	658
Other staff benefits	8	20	8	20
Termination benefits	-	524	-	524
Cost of retirement benefits	393	382	393	382
	6.026	6.502	5.782	6.217

The number of persons employed by the Group as at 31 December 2017 was 174 (31 December 2016: 178) and by the Bank 129 (31 December 2016: 133).

Retirement benefits

The Bank operates a defined benefit contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2016: 9,5%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Impairment losses on stock of properties (note 25)	94	-	-	-
Central Bank of Cyprus administrative fine	608	-	608	-
Consultancy and legal fees	364	246	349	219
Regulatory supervisory fees	281	247	281	247
Operating leases of buildings	278	293	276	291
Repairs and maintenance	624	571	618	566
Marketing, subscriptions and donations	363	302	363	302
Utilities	251	235	237	220
Other operating expenses	1.301	840	1.266	745
	4.164	2.734	3.998	2.590

Central Bank of Cyprus administrative fine

Other operating expenses include an amount of €608 thousand (after a discount of 15% due to early repayment) that relates to an administrative fine issued by the Central Bank of Cyprus on 21 May 2018, relating to controls omissions and weaknesses in the implementation of due diligence measures and customer identification procedures, as part of the Bank's anti-money laundering and know-your-customer framework. The shortcomings were identified during two CBC inspections carried out at the Bank in March 2014 and May 2016.

The Bank has already made significant progress in rectifying these issues, by taking all necessary steps to upgrade and improve its internal processes and policies. To that end, and towards full transparency and alignment with supervisory processes, the Bank applies best practices based on regulatory standards.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. LOSS BEFORE TAX

The loss before tax for the year is stated after charging the following:

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees	249	145	249	145
Expenses	50	5	50	5
Independent auditors' remuneration:				
Audit of annual accounts	63	64	44	43
Other non-audit services	69	4	69	4
Other assurance services	19	18	17	16
Loss on disposal/write off of equipment	9	41	9	41
Depreciation on:				
Premises and equipment	431	395	417	382
Intangible assets				
Computer software	203	239	203	238
Provisions for impairment:				
Loans and advances	4.484	3.976	4.484	3.976
Receivables and other assets	68	48	16	12
Financial guarantees and commitments (note 29)	25	285	25	285
Pending litigations (note 29)	60	-	60	-
Balances with Group companies	-	-	99	-

13. TAXATION

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Corporation tax	6	1	-	-
Defence Fund	-	(1)	-	-
Deferred tax	29	10	29	10
Special levy on client deposits	640	642	640	642
Charge for the year	675	652	669	652

The Bank is subject to income tax on taxable profits at the rate of 12,5%. As from 2012 a limitation of five years was introduced in the carried forward losses, under which losses are allowed to be carried forward for offsetting future taxable income, for a period of five years from the year to which the profits relate. Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. TAXATION (continued)

The special levy is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly installments. The government levy on client deposits for 2017 amounted to €640 thousand (2016: €642 thousand). Following an amendment of the "Special Levy on Credit Institutions Law" in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the special levy up to the level of the total annual special levy charge. The 2017 special levy on client deposits is net of €46 thousand relating to the contribution of the Bank to the Single Resolution Fund.

Reconciliation of taxation based on taxable income and taxation based on accounting profits:

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Loss before tax	(2.267)	(891)	(2.189)	(761)
Corporation tax on the loss for the year at the rates applicable in Cyprus	(283)	(111)	(274)	(95)
Tax effect of:				
Expenses not deductible for tax purposes	48	3	48	87
Allowances and income not subject to tax	-	(20)	-	(100)
Loss for the year	241	128	226	108
Corporation tax	6	-	-	-
Deferred tax	29	10	29	10
Defence fund	-	-	-	-
Special levy on client deposits	640	642	640	642
Charge for the year	675	652	669	652

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. LOSS AFTER TAX FROM DISCONTINTUED OPERATIONS

THE GROUP

On 22 March 2017 an agreement was signed for the sale both of the entire share capital of the Bank's Russian subsidiary Joint Stock Company cdbbank and for the assignment of the Bank's subordinated loan to its subsidiary of US$3m. The total consideration for these transactions was €6.150 thousand and they would become effective once the Central Bank of the Russian Federation (CBRF) approved the transfer of the shares to the new shareholders. An application for such approval was filed with the CBRF, which did not materialise. Following failure to obtain a positive reply from the CBRF for the sale of its Russian subsidiary, the Bank currently evaluates offers from interested buyers and at the same pursues other options to divest itself of JSC cdbbank. Notes 21 and 22 are also relevant.

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

The total effect of the Group's discontinued operations in Russia and the completion of the disposal of PCM Advisers Ltd in 2016, is presented below and is further analysed by company under (i) and (ii):

Discontinued Operations	2017 €'000	2016 €'000
Turnover	973	1.252
Net interest income	408	391
Fees and commissions	136	109
Net foreign exchange gains	62	106
Total net income	606	606
Loss on disposal property	(189)	-
Total expenses	(827)	(890)
Provisions for impairment	(443)	(515)
Loss before tax	(853)	(799)
Tax	(276)	198
Loss after tax	(1.129)	(601)
Profit on disposal of subsidiary company	-	105
Loss from discontinued operations net of tax	(1.129)	(496)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. LOSS AFTER TAX FROM DISCONTINTUED OPERATIONS (continued)

THE GROUP (continued)

(i) JSC cdbbank

Discontinued Operations	2017 €'000	2016 €'000
Turnover	973	1.229
Net interest income	408	391
Fees and commissions	136	86
Net foreign exchange gains	62	106
Total net income	606	583
Loss on disposal of property	(189)	-
Total expenses	(827)	(867)
Provisions for impairment	(443)	(515)
Loss before tax	(853)	(799)
Tax	(276)	198
Loss after tax	(1.129)	(601)

(ii) PCM Advisers Ltd

Discontinued Operations	2017 €'000	2016 €'000
Turnover	-	23
Fees and commissions		23
Total expenses	-	(23)
Loss before tax	-	-
Tax	-	-
Loss after tax	-	-
Profit on disposal of subsidiary company	-	105
Profit for the year	-	105

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. BASIC AND DILUTED LOSS PER SHARE

	THE GROUP		THE BANK	
	2017	2016	2017	2016
Basic and diluted loss per share				
Loss attributable to the owners of the parent company (€'000)	(4.057)	(2.035)	(2.585)	(1.413)
Weighted average number of shares in issue during the year (€'000)	25.961	25.961	25.961	25.961
Basic and fully diluted loss per share (cent)	(15,63)	(7,84)	(11,01)	(5,44)

	THE GROUP		THE BANK	
	2017	2016	2017	2016
Basic and diluted loss per share from continuing operations				
Loss attributable to the owners of the parent company (€'000)	(2.928)	(1.539)	(2.858)	(1.413)
Weighted average number of shares in issue during the year (€'000)	25.961	25.961	25.961	25.961
Basic and fully diluted loss per share (cent)	(11,28)	(5,93)	(11,01)	(5,44)

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Basic and diluted loss per share from discontinued operations				
Loss attributable to the owners of the parent company (€'000)	(1.129)	(496)	-	-
Weighted average number of shares in issue during the year (€'000)	25.961	25.961	-	-
Basic and fully diluted loss per share (cent)	(4,35)	(1,91)	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Cash	642	1.211	642	1.211
Balances with central banks	96.211	80.746	96.211	80.746
	96.853	81.957	96.853	81.957
Balances with other banks	119.452	117.848	119.357	117.693

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.526 thousand (2016: €4.297 thousand) for the Group and the Bank.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in note 36.1.

17. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2017	2016
	€'000	€'000
Loans and advances	318.243	336.685
Impairment losses individually assessed	(59.895)	(64.695)
Impairment losses collectively assessed	(2.808)	(1.577)
	255.540	270.413

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 36 - Financial Risk Management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	9.824	9.955	8.038	8.168
Acquisitions	20	-	20	-
Disposals	(50)	(131)	-	(130)
Balance 31 December	9.794	9.824	8.058	8.038
Permanent diminution				
Balance 1 January	(9.180)	(9.180)	(7.711)	(7.711)
Balance 31 December	(9.180)	(9.180)	(7.711)	(7.711)
Revaluation at fair value				
Balance 1 January	(7)	(8)	24	24
Increase in fair value	369	4	300	3
Disposals	2	(3)	-	(3)
Balance 31 December	364	(7)	324	24
Balance 31 December at fair value	978	637	671	351
Investments in Cyprus companies:				
Listed on the Cyprus Stock Exchange	978	589	671	351
Unlisted	-	48	-	-
	978	637	671	351
Investments in equities are classified as:				
Available for sale	978	637	671	351

Additional analysis and information regarding market risk are set out in note 36 - Financial Risk Management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. INVESTMENTS IN DEBT SECURITIES

THE GROUP AND THE BANK

	2017 €'000	2016 €'000
Securities held to maturity		
Cyprus government bonds	-	21.424
Cyprus treasury bills	-	13.187
Corporate bonds	-	9.680
	-	44.291
Securities available for sale		
Cyprus government bonds	21.695	-
Cyprus treasury bills	19.350	-
Corporate bonds	9.626	-
	50.671	-
Listed:		
On the Cyprus Stock Exchange	41.045	13.187
On foreign stock exchanges	9.626	31.104
	50.671	44.291

During the year, the Bank made a decision to dispose its holding of Cyprus government bonds that were classified as held to maturity, realising a profit of €1.799 thousand. In accordance with the provisions of the IAS 39, following the disposal of the held to maturity debt securities, the Bank reclassified the remaining debt securities under the available for sale category.

The movement of debt securities was as follows:

	2017		2016	
	Available for sale €'000	Held to maturity €'000	Available for sale €'000	Held to maturity €'000
Net book value at 1 January	-	44.291	-	20.898
Acquisitions	97.486	87.677	-	67.805
Disposals	-	(20.600)	-	-
Maturities	(110.645)	(46.708)	-	(44.200)
Amortisation of discounts/premiums and interest	(384)	(486)	-	(165)
Foreign exchange	-	-	-	(47)
Mark to market valuation	40	-	-	-
Reclassified from held to maturity to available for sale	64.174	(64.174)	-	-
	50.671	-	-	44.291

Additional analysis and information regarding market risk are set out in note 36 - Financial Risk Management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. INVESTMENTS IN SUBSIDIARY COMPANIES

THE BANK

The companies included in the consolidated financial statements of the Group and their activities are:

	Shareholding		Activities
	2017	2016	
	%	%	
In Cyprus:			
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services
In the Russian Federation:			
JSC cdbbank	100,00	100,00	Commercial banking operations

In addition to the above companies, at 31 December 2017 the Bank had 100% shareholding in the Special Purpose Entity companies (SPEs) listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts:

- Pekito Holdings Limited
- Tsemberio Holding Limited
- Glumar Limited

Investment in Subsidiary Companies

Shareholding interest in Global Capital Limited

Global Capital Limited is the parent company of two companies that are registered and operate in Cyprus. The companies of the group are:

	Shareholding		Activities
	2017	2016	
	%	%	
Global Capital Securities and Financial Services Limited	99,99	99,99	Portfolio management, provision of financial advisory services and brokerage services
Global Capital Finance Limited	100,00	100,00	Inactive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

THE BANK

The Bank's exposure in Global Capital Limited is shown below:

	2017 €'000	2016 €'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(1.269)	(1.251)
Assessed fair value of investment	**1.012**	**1.030**
Amounts due to subsidiary company	(279)	(319)
Amounts due by subsidiary company	133	101
Balance 31 December	**866**	**812**

Shareholding interest in Special Purpose Entities (SPEs)

The Bank's exposure in Special Purpose Entities are shown below:

	2017 €'000	2016 €'000
Cost of investment 1 January	3	-
Adjustment to assessed fair value	(3)	-
Assessed fair value of investment	**-**	**-**
Amounts due to SPEs	(28)	-
Amounts due by SPEs	3.673	-
Balance 31 December	**3.645**	**-**
Total exposure in subsidiary companies	**4.511**	**812**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. SUBSIDIARY COMPANY HELD FOR SALE

THE BANK

Shareholding interest in JSC cdbbank

On 22 March 2017 an agreement was signed for the sale both of the entire share capital of the Bank's Russian subsidiary Joint Stock Company cdbbank and for the assignment of the Bank's subordinated loan to its subsidiary of US$3m. The transaction would have become effective once the Central Bank of the Russian Federation (CBRF) approved the transfer of the shares to the new shareholders. An application for such approval was filed with the CBRF, which did not materialise. Following failure to obtain a positive reply from the CBRF for the sale of its Russian subsidiary, the Bank currently examines offers for sale of Joint Stock Company cdbbank to interested buyers and at the same time pursues other options for the divestment from Joint Stock Company cdbbank. Notes 14 and 22 are also relevant.

The Bank's exposure in JSC cdbbank is shown below:

	2017	2016
	€'000	€'000
Cost of investment 1 January	6.442	6.442
Exchange differences	(2.435)	(2.219)
	4.007	4.223
Adjustment to assessed fair value	(2.062)	(920)
Assessed fair value of investment	**1.945**	**3.303**
Amounts due to subsidiary company	(56)	(3)
Amounts due by subsidiary company	2.509	2.876
Exposure 31 December	**4.398**	**6.176**

The amount due by the subsidiary company relates to a subordinated loan amounting to €2.509 thousand (31 December 2016: €2.853 thousand). The loan is denominated in USD and bears interest at a floating rate equal to the six-month USD LIBOR applicable from time to time plus 2%. It is repayable on 4 June 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. ASSETS/LIABILITIES OF SUBSIDIARY COMPANY HELD FOR SALE

THE GROUP

According to the provisions of the IFRS5, "Non-Current assets held for sale and discontinued operations", all assets and liabilities of the subsidiary Joint Stock Company cdbbank held for sale have been reclassified and are presented on the face of the consolidated statement of financial position under the category Asset/Liabilities of subsidiary held for sale. Notes 14 and 21 are also relevant

At 31 December 2017 assets and liabilities of the subsidiary company JSC cdbbank included in the consolidated statement of financial position were stated at fair value and were as follows:

THE GROUP

	2017	2016
	€'000	€'000
Assets		
Cash and balances with banks	3.792	6.172
Loans and advances	3.283	5.394
Premises and equipment	87	117
Deferred tax	-	287
Property held for sale	176	596
Receivable and other assets	200	232
Total assets held for sale	7.538	12.798
Liabilities		
Client deposits	3.076	6.422
Accruals and other liabilities	64	200
Total liabilities held for sale	3.140	6.622

The fair value measurement for the subsidiary held for sale of €1.945 thousand (31 December 2016: €3.303 thousand) has been categorised as a Level 3 fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. PREMISES AND EQUIPMENT

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Total €'000
2017			
Cost or valuation			
Balance 1 January	5.997	3.161	9.158
Additions	84	350	434
Disposals	(215)	(337)	(552)
Revaluation	642	-	642
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	6.199	3.174	9.373
Depreciation			
Balance 1 January	778	2.394	3.172
Charge for the year	163	268	431
On disposals	(215)	(328)	(543)
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	417	2.334	2.751
Net book value 31 December	5.782	840	6.622
Historic net book value of owned premises stated at valuation 31 December	3.754	-	3.754
2016	€'000	€'000	€'000
Cost or valuation			
Balance 1 January	5.871	3.287	9.158
Discontinued operations	(197)	(73)	(270)
Additions	389	316	705
Write-offs	(66)	(369)	(435)
Balance 31 December	5.997	3.161	9.158
Depreciation			
Balance 1 January	767	2.593	3.360
Discontinued operations	(93)	(55)	(148)
Charge for the year	170	225	395
Write-offs	(66)	(369)	(435)
Balance 31 December	778	2.394	3.172
Net book value 31 December	5.219	767	5.986
Historic net book value of owned premises stated at valuation 31 December	3.830	-	3.830

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. PREMISES AND EQUIPMENT (continued)

THE BANK	Land and buildings €'000	Plant and equipment €'000	Total €'000
2017			
Cost or valuation			
Balance 1 January	5.885	2.922	8.807
Additions	84	349	433
Disposals	(215)	(337)	(552)
Revaluation	642	-	642
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	6.087	2.934	9.021
Depreciation			
Balance 1 January	694	2.164	2.858
Charge for the year	152	265	417
On disposals	(215)	(327)	(542)
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	322	2.102	2.424
Net book value 31 December	5.765	832	6.597
Historic net book value of owned premises stated at valuation 31 December	3.738	-	3.738

THE BANK	Land and buildings €'000	Plant and equipment €'000	Total €'000
2016			
Cost or valuation			
Balance 1 January	5.562	2.952	8.514
Additions	389	315	704
Write-offs	(66)	(345)	(411)
Balance 31 December	5.885	2.922	8.807
Depreciation			
Balance 1 January	601	2.285	2.886
Charge for the year	159	223	382
On write-offs	(66)	(344)	(410)
Balance 31 December	694	2.164	2.858
Net book value 31 December	5.191	758	5.949
Historic net book value of owned premises stated at valuation 31 December	3.802	-	3.802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. PREMISES AND EQUIPMENT (continued)

THE BANK (continued)

The Bank's freehold premises were valued by external professional valuers on 31 December 2017 at open market value on the basis of existing use. The surplus arising from the revaluation of freehold premises amounting to €642 thousand less related deferred tax of €135 thousand, was transferred to the revaluation reserve.

The net book value of freehold premises, on a cost less accumulated depreciation basis, as at 31 December 2017 would have amounted to €3.672 thousand (2016: €3.723 thousand). The net book value of leasehold premises as at 31 December 2017 amounts to €65 thousand (2016: €79 thousand).

24. INTANGIBLE ASSETS

	THE GROUP	THE BANK
	Computer software	Computer software
2017	€'000	€'000
Cost		
Balance 1 January	4.060	3.912
Additions	202	202
Balance 31 December	4.262	4.114
Depreciation and impairment losses		
Balance 1 January	3.443	3.295
Charge for the year	203	203
Balance 31 December	3.646	3.498
Net book value 31 December	616	616

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. INTANGIBLE ASSETS (continued)

	THE GROUP			THE BANK
		Computer		Computer
	Goodwill	software	Total	software
2016	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	1.037	3.841	4.878	3.693
Discontinued operations	(1.037)	-	(1.037)	-
Additions	-	260	260	260
Write-offs	-	(41)	(41)	(41)
Balance 31 December	-	4.060	4.060	3.912
Depreciation and impairment losses				
Balance 1 January	1.037	3.204	4.241	3.057
Discontinued operations	(1.037)	-	(1.037)	-
Charge for the year	-	239	239	238
Balance 31 December	-	3.443	3.443	3.295
Net book value 31 December	-	617	617	617

Goodwill relates to the acquisition of PCM Advisers Ltd, and represents the difference between the fair value of net assets acquired and the total consideration paid. In 2015 the total balance of goodwill was fully depreciated. In 2016 PCM Advisers Ltd was disposed and goodwill was written off.

25. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Fees receivable	-	42	-	42
Stock of properties held for sale	3.666	-	30	-
Sundry debtors and other assets	2.086	3.493	1.071	2.863
Assessed fair value of derivatives	-	114	-	114
	5.752	3.649	1.101	3.019

Stock of properties held for sale

The Bank as part of its non-performing exposures management is entering into a number of debt-for-asset swap transactions. Assets acquired in satisfaction of debt are acquired directly or through wholly owned Special Purpose Entities (SPEs).

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For the year ended 31 December 2017

25. RECEIVABLES AND OTHER ASSETS (continued)

Stock of properties held for sale (continued)

The carrying value of stock of properties is determined as the lower of cost and net realisable value. Impairment is recognized if the net realisable value is below cost. During 2017 an impairment loss of €94 thousand was recognised in the consolidated income statement under provisions for impairment.

The stock of properties held at 31 December 2017 consists of commercial buildings and land in Nicosia and Limassol.

The movement of stock of properties held for sale is as follows:

	2017	
	THE GROUP	**THE BANK**
	€'000	€'000
Balance 1 January 2017	-	-
Additions	3.760	30
Impairment losses	(94)	-
Balance 31 December	3.666	30

Assessed fair value of derivatives

Derivatives consist of forward exchange rate contracts. The nominal value and assessed fair value of derivatives are as follows:

	THE GROUP		**THE BANK**	
	Nominal value €'000	Assessed fair value Asset €'000	Nominal value €'000	Assessed fair value Asset €'000
Forward exchange rate contracts				
At 31 December 2017	-	-	-	-
At 31 December 2016	5.000	114	5.000	114

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For the year ended 31 December 2017

26. BANK BORROWINGS

THE GROUP AND THE BANK

	2017	2016
	€'000	€'000
Borrowings	2.001	-
	2.001	-

In 2016 a Finance Contract was signed between the Bank and the European Investment Bank (EIB) for an amount of up to €15 million. The purpose of the loan was to provide support to the Cypriot economy through the financing of eligible investment projects located in Cyprus undertaken by small and medium sized companies. The interest and repayment period are defined for each tranche of the loan. The balance as at 31 December 2017, carries a floating interest rate based on the six-month Euribor and a margin of 0,708%, and is repayable within ten years in twenty equal installments of €100 thousand each starting in May 2018 and completed in November 2027.

27. CLIENT DEPOSITS

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Demand deposits	216.576	204.894	216.576	204.894
Fixed-term or notice deposits	264.062	254.487	264.062	254.487
	480.638	459.381	480.638	459.381

Maturities of client deposits are shown in note 36 - Financial Risk Management.

28. DEFERRED TAXATION

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Balance 1 January	154	94	154	144
Deferred tax on revaluation of premises	136	-	136	
Deferred tax asset on discontinued operations	-	50	-	-
Debited to the income statement	29	10	29	10
Balance 31 December	319	154	319	154

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Surplus on revaluation of premises (net of accumulated depreciation)	387	251	387	251
Accumulated temporary differences between depreciation and capital allowances	(68)	(97)	(68)	(97)
	319	154	319	154

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

29. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	2.217	1.372	1.852	1.262
Items in the course of settlement	8.027	28.512	8.027	28.512
Provisions for financial guarantees and commitments	310	285	310	285
Provisions for pending litigation	120	60	120	60
Assessed fair value of derivatives	-	83	-	83
	10.674	30.312	10.309	30.202

Items in the course of settlement as at 31 December 2016, include an amount of €23,8 million relating to an incoming fund received on 30 December 2016 which was applied to the customer's account after year end.

Provisions for financial guarantees and commitments

The movement for the year in provisions for financial guarantees and commitments is as follows:

THE GROUP AND THE BANK	2017	2016
	€'000	€'000
Balance 1 January	285	-
Increase in provision (note 12)	103	
Decrease in provision (note 12)	(78)	285
Balance 31 December	310	285

Provisions for pending litigation

The movement for the year in provisions for pending litigation is as follows:

THE GROUP AND THE BANK	2017	2016
	€'000	€'000
Balance 1 January	60	60
Increase in provision (note 12)	60	-
Balance 31 December	120	60

Assessed fair value of derivatives

Derivatives consist of forward exchange rate contracts. The nominal value and assessed fair value of derivatives is as follows:

THE GROUP AND THE BANK	Nominal value	Assessed fair value Asset
	€'000	€'000
Forward exchange rate contracts		
At 31 December 2017	-	-
At 31 December 2016	2.980	83

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

30. LOAN CAPITAL

THE GROUP AND THE BANK

	2017	2016
	€'000	€'000
Perpetual Unsecured Subordinated Note	5.000	-

On 3rd August 2017, the Bank issued at par a €5.000.000 Perpetual Unsecured Subordinated Note to Bank of Cyprus Public Company Limited. The interest rate on the Note is fixed at 13,75% per annum, payable semi-annually on 30th June and 31st December of each year. The payment of interest can be cancelled by the Bank (the Issuer) at its discretion, provided that at the time of such interest payment:

(a) The Capital Ratio of the Bank for the six months' period prior to the interest payment date concerned shall be below the Regulatory Minimum Capital Ratio as determined by the Central Bank of Cyprus (the Competent Authority) increased by 200 basis points;

(b) the interest payment shall cause the Capital Ratio of the Bank to fall below its Regulatory Minimum Capital Ratio, as determined by the Competent Authority for the six months' period prior to the Interest Payment Date concerned increased by 200 basis points.

Any interest payment cancelled, as indicated above, shall not accumulate or be payable at any time thereafter. For the year ending 31 December 2017 the conditions for payment of interest were not met, and consequently no interest was paid or accrued on the Note.

The Issuer has the option to redeem the Note in full but not in part on the fifth anniversary from the issue date of 3rd August 2022 or any due date for interest payment thereafter. The right to exercise such redemption option is subject to prior permission by the Competent Authority upon demonstrating that the Note has been replaced by own funds instruments of equal or higher quality or that following such redemption own funds would exceed minimum capital requirements as determined by the Competent Authority.

Upon the occurrence of a trigger event, being defined as a Core Equity Tier 1 ratio (CET1) below 5,125%, the principal amount of the Note shall be written down proportionately with other such loss absorbing instruments to the extent necessary to restore CET1 to 5,125%.

The Perpetual Unsecured Subordinated Note qualifies for classification as Additional Tier 1 Capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

31. SHARE CAPITAL

	2017		2016	
	No. of shares	Nominal Share capital €'000	No. of shares	Nominal Share capital €'000
Authorised:				
Ordinary shares of €1,71 each	79.397.600	135.770	79.397.600	135.770
Class "A" shares of €1,71 each	13.000.000	22.230	13.000.000	22.230
Class "B" shares of €1,00 each	13.000.104	13.000	13.000.104	13.000
	105.397.704	171.000	105.397.704	171.000
Issued and fully paid:				
Class "A" shares				
Balance 1 January and 31 December	12.961.354	22.164	12.961.354	22.164
Class "B" shares				
Balance 1 January and 31 December	13.000.000	13.000	13.000.000	13.000
Total issued shares	25.961.354	35.164	25.961.354	35.164

Notwithstanding the difference in their nominal value and their segregation into two classes, both Class A shares and Class B shares rank pari passu in all respects including voting, return of capital etc, except that Class A shares shall carry a right to a preference cumulative dividend as described in the Bank's Articles of Association.

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a Prospective Investor. As per the terms of the said agreement, an amount of €4 million was paid by the Prospective Investor in a non-redeemable "capital account" which may only be employed as common equity by the issue of share capital for the Bank. In case the Prospective Investor does not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FAIR VALUE

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Group's and of the Bank's financial instruments, which are not shown on the calculated fair value, are measured at amortized cost using the effective interest method less provision for impairment. The fair value of loans and advances to customers equals the amount shown in the statement of financial position after deducting provisions for impairment.

Where possible, the Group calculates the fair value of financial assets using prices in active markets. A market is considered active if prices are available in a stable and continuous basis where real transactions between market participants are frequently carried out under normal commercial practice.

When the market for some financial instruments is not active, the Group calculates fair value using various methods of valuation. Such valuation methods may include the use of prices from recent transactions made at an arm's length, the use of the current fair value of other similar instruments, discounted cash flow methods and option pricing models. The chosen valuation method is compatible with generally accepted accounting methodologies used to determine the value of financial instruments. The data used in the valuation techniques represent market expectations and measurements of the relationship between risk-return relating to the financial instruments.

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

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FAIR VALUE (continued)

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

THE GROUP

2017	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets				
Investments available for sale				
Equities	978			978
Debt securities	50.671	-	-	50.671
	51.649	-	-	51.649
Financial liabilities	-	-	-	-

2016	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	114	-	114
Investments available for sale				
Equities	589	-	48	637
	589	114	48	751
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	83	-	83
	-	83	-	83

THE BANK

2017	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets				
Investments available for sale				
Equities	671			671
Debt securities	50.671	-	-	50.671
Subsidiary company held for sale	-	-	1.945	1.945
Investments in subsidiary companies	-	-	1.012	1.012
	51.342	-	2.957	54.299
Financial liabilities	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FAIR VALUE (continued)

THE BANK

2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	114	-	114
Investments available for sale	351	-	-	351
Subsidiary company held for sale			3.303	3.303
Investments in subsidiary companies	-	-	1.030	1.030
	351	114	4.333	4.798
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	83	-	83
	-	83	-	83

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

The following table presents an analysis of non-financial assets recorded at fair value by level of the fair value hierarchy.

THE GROUP

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.782	5.782

2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.219	5.219

THE BANK

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.765	5.765

2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.191	5.191

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FAIR VALUE (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level of the fair value hierarchy into which each fair value measurement is categorised.

THE GROUP

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	96.853	-	96.853
Balances with other banks	-	119.452	-	119.452
Loans and advances	-	-	255.540	255.540
	-	216.305	255.540	471.845
Financial liabilities				
Bank borrowings	-	-	2.001	2.001
Client deposits	-	-	480.638	480.638
	-	-	482.639	482.639

2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	81.957	-	81.957
Balances with other banks	-	117.848	-	117.848
Loans and advances	-	-	270.413	270.413
Debt securities held-to-maturity	-	-	44.291	44.291
	-	199.805	314.704	514.509
Financial liabilities				
Client deposits	-	-	459.381	459.381
	-	-	459.381	459.381

THE BANK

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	96.853	-	96.853
Balances with other banks	-	119.357	-	119.357
Loans and advances	-	-	255.540	255.540
	-	216.210	255.540	471.750
Financial liabilities				
Bank borrowings	-	-	2.001	2.001
Client deposits	-	-	480.638	480.638
	-	-	482.639	482.639

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FAIR VALUE (continued)

THE BANK (continued)

2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	81.957	-	81.957
Balances with other banks	-	117.693	-	117.693
Loans and advances	-	-	270.413	270.413
Debt securities held-to-maturity	-	-	44.291	44.291
	-	199.650	314.704	514.354
Financial liabilities				
Client deposits	-	-	459.381	459.381
	-	-	459.381	459.381

33. CONTINGENT LIABILITIES AND COMMITMENTS

The Group, as a financial institution, provides services such as documentary credits and guarantees. These facilities are usually offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the statement of financial position.

The nominal amounts of contingent liabilities and commitments as at 31 December are as follows:

THE GROUP AND THE BANK

Contingent liabilities

	THE GROUP		**THE BANK**	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Guarantees issued	21.302	19.471	21.302	19.471

Guarantees issued comprise performance and tender guarantees and other letters of guarantee given to clients and represent irrevocable obligations of the Bank to pay a specific amount to the beneficiary only if the terms of the specific contractual obligation are not adhered to.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Commitments

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Documentary credits	4.166	3.863	4.166	3.863
Undrawn commitments for loans and advances granted to clients	37.718	40.090	37.718	40.090
	41.884	43.953	41.884	43.953

Documentary credits represent bank commitments for payment to third parties, on condition that the terms of the documentary credit are satisfied, including the presentation of the required documents. The repayment by the client is usually immediate.

Undrawn commitments for loans and advances represent agreements to grant loans, overdrafts or other facilities to a client that have not yet been utilised by the client.

34. CAPITAL COMMITMENTS

Commitments for contracted capital expenditure as at 31 December 2017 amount to €342 thousand (2016: €128 thousand).

35. CASH AND CASH EQUIVALENTS

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Cash	642	1.211	642	1.211
Balances with central banks	91.685	79.672	91.685	79.672
Balances with other banks	118.558	115.028	118.463	114.873
	210.885	195.911	210.790	195.756

Cash and cash equivalents include cash and unrestricted balances with Central Banks and cash with other banks with maturity of less than three months.

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36. RISK MANAGEMENT

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

The Group implements internal mechanisms for continuous and systematic monitoring of the above risks in order to avoid excessive concentration of such risks. The nature of such risks and the manner of dealing with them are explained below:

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

36.1 Credit risk

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

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

The Group's policy relating to suspension of income on loans and advances and provisions for impairment of doubtful accounts is stated in note 3 – Significant Accounting Policies.

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

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

The Group assesses the credit risk relating to investments in liquid funds, mainly debt securities and placements with banks. Counterparty and country limits are in place for managing such exposures.

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For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK

Concentration by economic sector:

	2017 €'000	2016 €'000
Services	103.483	125.038
Construction & real estate	101.114	85.072
Industry	38.680	40.481
Hotels & catering	26.143	30.310
Agriculture	15.212	16.295
Transport and storage	1.557	6.261
Other sectors	32.054	33.228
	318.243	336.685

Concentration by location:

Concentration by location for loans and advances is based on the client's country of domicile. The loans and advances of the Group and the Bank include €3.054 thousand (2016: €3.074 thousand) loans to Russian clients. The remaining loans are located in Cyprus.

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK

	2017 €'000	2016 €'000
Carrying amount		
Grade 1-3: Low-medium risk	126.374	141.665
Grade 4-5: Special mention	24.379	20.601
	150.753	162.266
Of which loans and advances with renegotiated terms	44.075	52.995
Fair value of collateral security		
Grade 1-3: Low-medium risk	73.282	87.650
Grade 4-5: Special mention	18.809	14.242
	92.091	101.892
Of which loans and advances with renegotiated terms	38.995	45.039

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK
2017

		Performing loans and advances			
	Total loans and advances €'000	Non-restructured €'000	Restructured €'000	Total €'000	Non-performing loans and advances €'000
Loans and advances to corporate legal entities					
Services	85.972	50.425	13.817	64.242	21.730
Construction & real estate	92.958	29.966	17.122	47.088	45.870
Industry	32.777	2.717	6.661	9.378	23.399
Hotels & catering	21.598	73	3.100	3.173	18.425
Agriculture	13.399	-	-	-	13.399
Other sectors	1.150	-	-	-	1.150
	247.854	83.181	40.700	123.881	123.973
Loans and advances to retail legal entities					
Services	13.684	8.034	2.229	10.263	3.421
Construction & real estate	6.391	2.414	63	2.477	3.914
Industry	5.835	812	-	812	5.023
Hotels & catering	2.637	39	434	473	2.164
Agriculture	1.603	11	-	11	1.592
Transport and storage	1.094	1.094	-	1.094	-
Other sectors	336	-	-	-	336
	31.580	12.404	2.726	15.130	16.450
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
(a) Owner occupied	9.123	1.548	412	1.960	7.163
Consumer Loans	16.376	6.034	714	6.748	9.628
Current accounts	5.405	2.977	3	2.980	2.425
Credit facilities to sole traders	7.905	2.735	-	2.735	5.170
	38.809	13.294	1.129	14.423	24.386
Total loans and advances	318.243	108.879	44.555	153.434	164.809
Provisions	(62.703)	(2.201)	(480)	(2.681)	(60.022)
Carrying amount	255.540	106.678	44.075	150.753	104.787

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK
2016

		Performing loans and advances			
	Total loans and advances €'000	Non-restructured €'000	Restructured €'000	Total €'000	Non-performing loans and advances €'000
Loans and advances to corporate legal entities					
Services	101.466	48.083	16.515	64.598	36.868
Construction & real estate	77.712	16.684	27.836	44.520	33.192
Industry	33.973	4.325	4.575	8.900	25.073
Hotels & catering	23.774	271	-	271	23.503
Agriculture	14.389	738	-	738	13.651
Transport and storage	5.605	5.605	-	5.605	-
Other sectors	3.793	2.726	-	2.726	1.067
	260.712	78.432	48.926	127.358	133.354
Loans and advances to retail legal entities					
Services	15.466	9.968	691	10.659	4.807
Construction & real estate	4.488	2.585	-	2.585	1.903
Industry	6.421	1.330	111	1.441	4.980
Hotels & catering	4.639	60	674	734	3.905
Agriculture	1.700	13	-	13	1.687
Transport and storage	541	239	-	239	302
Other sectors	360	-	-	-	360
	33.615	14.195	1.476	15.671	17.944
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
(a) Owner occupied	8.755	1.606	418	2.024	6.731
(b) For other purposes	-	-	-	-	-
Consumer Loans	14.474	4.429	2.137	6.566	7.908
Current accounts	5.845	3.681	-	3.681	2.164
Credit facilities to sole traders	13.284	8.007	313	8.320	4.964
	42.358	17.723	2.868	20.591	21.767
Total loans and advances	336.685	110.350	53.270	163.620	173.065
Provisions	(66.272)	(1.079)	(275)	(1.354)	(64.918)
Carrying amount	270.413	109.271	52.995	162.266	108.147

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date

THE GROUP AND THE BANK

	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2017	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	21.184	5.375	416	18.395	5.108	380	167	-	-	2.622	267	36
Between one and two years	18.601	9.053	126	17.180	8.262	122	318	-	-	1.103	791	4
Between two and three years	11.172	7.798	3.584	7.714	4.743	2.371	103	-	-	3.355	3.055	1.213
Between three and five years	13.511	9.057	1.689	10.394	7.104	1.291	61	-	-	3.056	1.953	398
Between five and seven years	65.308	28.344	5.800	51.146	18.412	5.537	6.907	6.420	47	7.255	3.512	216
Between seven and ten years	129.834	59.296	25.778	121.439	55.246	23.272	1.329	743	216	7.066	3.307	2.290
Over ten years	58.633	45.886	25.310	53.166	41.548	23.484	238	-	-	5.229	4.338	1.826
	318.243	164.809	62.703	279.434	140.423	56.457	9.123	7.163	263	29.686	17.223	5.983

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date

THE GROUP AND THE BANK

	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
2016	Total	Non-performing	Provision amount	Total	Non-performing	Provision amount	Total	Non-performing	Provision amount	Total	Non-performing	Provision amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within one year	9.226	805	33	8.435	803	29	9	-	-	45	2	-
Between one and two years	9.901	7.092	3.109	6.069	3.716	2.030	109	-	-	3.723	3.376	1.079
Between two and three years	1.931	1.547	195	1.931	1.547	195	-	-	-	-	-	-
Between three and five years	44.615	23.895	3.298	30.918	14.276	2.955	6.495	6.165	44	7.202	3.454	299
Between five and seven years	126.038	62.442	19.196	118.169	61.044	19.010	438	3	1	7.431	1.395	185
Between seven and ten years	85.613	27.459	10.729	73.734	23.740	8.980	1.062	562	168	10.817	3.157	1.581
Over ten years	59.361	49.825	29.712	55.071	46.172	28.206	310	-	-	3.980	3.653	1.506
	336.685	173.065	66.272	294.327	151.298	61.405	8.753	6.730	213	33.605	15.037	4.654

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Analysis of non-performing loans and advances on the basis of arrears

THE GROUP AND THE BANK

2017	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Fair value of collateral security €'000
Arrears				
Less than three months	51.392	4.820	46.572	38.901
Between three and six months	7.051	2.113	4.938	4.082
Between six months and one year	1.843	167	1.676	1.569
Over one year	104.523	52.922	51.601	40.559
Total	164.809	60.022	104.787	85.111
Of which loans and advances with renegotiated terms	84.299	18.437	65.862	55.846

2016	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Fair value of collateral security €'000
Arrears				
Less than three months	38.766	5.812	32.954	26.036
Between three and six months	4.517	16	4.501	3.845
Between six months and one year	9.166	1.857	7.309	5.506
Over one year	120.616	57.233	63.383	57.466
Total	173.065	64.918	108.147	92.853
Of which loans and advances with renegotiated terms	84.392	14.999	69.393	57.817

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

The Risk Department determines the amount and type of collateral and other risk mitigation required for the granting of new loans to customers.

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral, bank guarantees, government guarantees, pledges of equity securities and debt instruments, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees.

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

The fair value of the collateral presented in the tables below is at forced sale value capped to the carrying value of the loans and advances to customers.

THE GROUP AND THE BANK

2017	Maximum exposure to credit risk	Fair value of collateral				Net exposure to credit risk
		Cash	Property	Other	Total collateral	
	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers						
Performing	150.753	6.985	85.047	59	92.091	58.662
Non-performing	104.787	370	84.116	625	85.111	19.676
	255.540	7.355	169.163	684	177.202	78.338
2016						
Loans and advances to customers						
Performing	162.266	6.968	93.916	1.008	101.892	60.374
Non-performing	108.147	394	91.374	1.085	92.853	15.294
	270.413	7.362	185.290	2.093	194.745	75.668

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

The movement in the provisions for loans and advances to customers is shown in the tables below:

Provisions for impairment of doubtful accounts on loans and advances

THE GROUP AND THE BANK

2017	Provisions €'000	Suspended income €'000	Total €'000
Balance 1 January	34.298	31.974	66.272
Exchange differences	(82)	(18)	(100)
Loans and advances written off	(6.052)	(9.815)	(15.867)
Income suspended for the year	-	8.017	8.017
Charge for the year	6.464	-	6.464
Release of provisions and recoveries	(1.980)	(103)	(2.083)
Balance 31 December	32.648	30.055	62.703
Individual impairment	29.840	30.055	59.895
Collective impairment	2.808	-	2.808

2016	Provisions €'000	Suspended income €'000	Total €'000
Balance 1 January	30.862	25.518	56.380
Exchange differences	186	19	205
Discontinued operations	(678)	(209)	(887)
Loans and advances written off	(48)	(576)	(624)
Income suspended for the year	-	8.526	8.526
Charge for the year	7.284	-	7.284
Release of provisions and recoveries	(3.308)	(1.304)	(4.612)
Balance 31 December	34.298	31.974	66.272
Individual impairment	32.722	31.974	64.696
Collective impairment	1.576	-	1.576

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and other banks

Balances with central banks and other banks are analysed by Moody's rating as follows:

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Aaa – Aa3	12.757	14.511	12.757	14.511
A1 – A3	53.712	69.538	53.712	69.538
Baa1 – Baa3	-	12.669	-	12.669
Ba1 – Ba3	96.217	17	96.217	17
B1 – B3	-	80.746	-	80.746
Caa – C	52.255	20.834	52.255	20.781
Unrated	722	279	627	177
	215.663	198.594	215.568	198.439

36.2 Market Risk

Market risk is the risk of loss from adverse changes in market prices - namely from changes in interest rates, exchange rates and security prices.

36.2.1 Price risk

Equity securities price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavorable change in the prices of equity securities held by the Group as investments.

Investments in equities are outside the Group’s risk appetite. The current portfolio of equity investments comprises mainly of holdings in two companies listed in the Cyprus Stock Exchange. The prices of equity investments are being monitored by the Group on a continuous basis.

Equity investments are stated in the financial statements at their assessed fair value which takes into account possible losses that may arise in relation to specific investments. A change in the value of equity investments classified as “available-for-sale” affects the equity of the Group. The Group's policy relating to revaluation of equity investments at their assessed fair value, as well as the recognition of permanent diminution in value, is stated in note 3 - Significant Accounting Policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market Risk (continued)

36.2.1 Price risk (continued)

Equity securities price risk (continued)

The table below indicates how the equity of the Group will be affected from a change in the price of the equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices or change in the book value of unlisted equity investments.

THE GROUP

	2017			2016		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities available for sale						
Listed	978	+20	196	589	+20	118
Unlisted	-	+25	-	48	+25	12
Listed	978	-20	(196)	589	-20	(118)
Unlisted	-	-25	-	48	-25	(12)

THE BANK

	2017			2016		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities available for sale						
Listed	671	+20	134	351	+20	70
Listed	671	-20	(134)	351	-20	(70)

Concentration of equity securities:

	THE GROUP		THE BANK	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
By sector:				
Services	764	637	457	351
Other sectors	214	-	214	-
	978	637	671	351

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market Risk (continued)

36.2.1 Price risk (continued)

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Bank. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Bank invests a significant part of its liquid assets in debt securities. The current portfolio of debt securities is classified as available for sale, hence changes in the value the securities affect the equity of the Group. The Bank's policy relating to valuation of debt securities, is stated in note 3 - Significant Accounting Policies.

The table below shows the impact on the equity of the Bank and the Group from a change in the price of the debt securities held, as a result of reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

THE GROUP AND THE BANK

	2017			**2016**		
	Carrying amount €'000	Change in market prices %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Debt Securities						
For A3 and above rated bonds	9.626	+3%	289	-	-	-
For below A3 rated bonds	41.045	+10%	4.105	-	-	-
For A3 and above rated bonds	9.626	-3%	(289)	-	-	-
For below A3 rated bonds	41.045	-10%	(4.105)	-	-	-

Concentration of debt securities:

	THE GROUP		**THE BANK**	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
By sector:				
Governments	41.045	-	41.045	-
Banks	9.626	-	9.626	-
Other sectors	-	-	-	-
	50.671	-	50.671	-
By country:				
Cyprus	41.045	-	41.045	-
Great Britain	4.285	-	4.285	-
United States of America	4.297	-	4.297	-
Norway	1.044	-	1.044	-
	50.671	-	50.671	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market Risk (continued)

36.2.2 Interest rate risk

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

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

The interest rate sensitivity gap analysis indicating the effect on the Group's and on the Bank's profit of changes in interest rates is shown in the tables below:

THE GROUP 2017	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	96.211	-	-	-	-	642	96.853
Balances with other banks	68.558	50.000	-	894	-	-	119.452
Loans and advances	139.384	13.023	103.133	-	-	-	255.540
Investments in equities	-	-	-	-	-	978	978
Investments in debt securities	-	19.350	-	9.626	21.695	-	50.671
Assets of subsidiary company held for sale	4.220	-	-	-	-	3.318	7.538
Premises and equipment	-	-	-	-	-	6.622	6.622
Intangible assets	-	-	-	-	-	616	616
Receivables and other assets	-	-	-	-	-	5.752	5.752
Total assets	308.373	82.373	103.133	10.520	21.695	17.928	544.022
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.001	-	-	-	2.001
Client deposits	263.170	63.061	149.067	5.340	-	-	480.638
Liabilities of subsidiary company held for sale	14	204	2.070	15	-	837	3.140
Deferred taxation	-	-	-	-	-	319	319
Accruals and other liabilities	-	-	-	-	-	10.674	10.674
Loan capital	-	-	-	-	-	5.000	5.000
Total equity	-	-	-	-	-	42.250	42.250
Total liabilities and equity	263.184	63.265	153.138	5.355	-	59.080	544.022
Net position	45.189	19.108	(50.005)	5.165	21.695	(41.152)	-
Change in interest rates -1% - effect on profit	(452)	(191)	500	(52)	(217)	-	(412)
Change in interest rates +1% - effect on profit	452	191	(500)	52	217	-	412

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market Risk (continued)

36.2.2 Interest rate risk (continued)

THE GROUP 2016	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	80.746	-	-	-	-	1.211	81.957
Balances with other banks	117.848	-	-	-	-	-	117.848
Loans and advances	170.097	14.425	85.891	-	-	-	270.413
Investments in equities	-	-	-	-	-	637	637
Investments in debt securities	4.211	8.976	-	12.456	18.648	-	44.291
Premises and equipment	-	-	-	-	-	5.986	5.986
Intangible assets	-	-	-	-	-	617	617
Assets of subsidiary company held for sale	11.132	-	-	-	-	1.666	12.798
Receivables and other assets	-	-	-	-	-	3.649	3.649
Total assets	384.034	23.401	85.891	12.456	18.648	13.766	538.196
LIABILITIES & EQUITY							
Client deposits	39.235	62.075	134.627	18.550	-	204.894	459.381
Deferred taxation	-	-	-	-	-	154	154
Liabilities of subsidiary company held for sale	445	1.711	2.777	456	-	1.233	6.622
Accruals and other liabilities	-	-	-	-	-	30.312	30.312
Total equity	-	-	-	-	-	41.727	41.727
Total liabilities and equity	39.680	63.786	137.404	19.006	-	278.320	538.196
Net position	344.354	(40.385)	(51.513)	(6.550)	18.648	(264.554)	-
Change in interest rates -1% - effect on profit	(3.444)	404	515	66	(186)	-	(2.645)
Change in interest rates +1% - effect on profit	3.444	(404)	(515)	(66)	186	-	2.645

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market Risk (continued)

36.2.2 Interest rate risk (continued)

THE BANK 2017	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	96.211	-	-	-	-	642	96.853
Balances with other banks	69.357	50.000	-	-	-	-	119.357
Loans and advances	139.384	13.023	103.133	-	-	-	255.540
Investments in equities	-	-	-	-	-	671	671
Investments in debt securities	-	19.350	-	9.626	21.695	-	50.671
Subsidiary company held for sale	-	-	2.509	-	-	1.889	4.398
Investments in subsidiary companies	3.645	-	-	-	-	866	4.511
Premises and equipment	-	-	-	-	-	6.597	6.597
Intangible assets	-	-	-	-	-	616	616
Receivables and other assets	-	-	-	-	-	1.101	1.101
Total assets	308.597	82.373	105.642	9.626	21.695	12.382	540.315
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.001	-	-	-	2.001
Client deposits	263.170	63.061	149.067	5.340	-	-	480.638
Deferred taxation	-	-	-	-	-	319	319
Accruals and other liabilities	-	-	-	-	-	10.309	10.309
Loan capital	-	-	-	-	-	5.000	5.000
Total equity	-	-	-	-	-	42.048	42.048
Total liabilities and equity	263.170	63.061	151.068	5.340	-	57.676	540.315
Net position	45.427	19.312	(45.426)	4.286	21.695	(45.294)	-
Change in interest rates -1% - effect on profit	(454)	(193)	454	(43)	(217)	-	(453)
Change in interest rates +1% - effect on profit	454	193	(454)	43	217	-	453

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market Risk (continued)

36.2.2 Interest rate risk (continued)

THE BANK

2016	Up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Non-interest bearing €'000	Total €'000
ASSETS							
Cash and balances with central banks	80.746	-	-	-	-	1.211	81.957
Balances with other banks	117.693	-	-	-	-	-	117.693
Loans and advances	170.097	14.425	85.891	-	-	-	270.413
Investments in equities	-	-	-	-	-	351	351
Investments in debt securities	4.211	8.976	-	12.456	18.648	-	44.291
Subsidiary company held for sale	-	20	2.853	-	-	3.303	6.176
Investments in subsidiary companies	-	-	-	-	-	812	812
Premises and equipment	-	-	-	-	-	5.949	5.949
Intangible assets	-	-	-	-	-	617	617
Receivables and other assets	-	-	-	-	-	3.019	3.019
Total assets	372.747	23.421	88.744	12.456	18.648	15.262	531.278
LIABILITIES & EQUITY							
Client deposits	39.235	62.075	134.627	18.550	-	204.894	459.381
Deferred taxation	-	-	-	-	-	154	154
Accruals and other liabilities	-	-	-	-	-	30.202	30.202
Total equity	-	-	-	-	-	41.541	41.541
Total liabilities and equity	39.235	62.075	134.627	18.550	-	276.791	531.278
Net position	333.512	(38.654)	(45.883)	(6.094)	18.648	(177.879)	-
Change in interest rates -1% - effect on profit	(3.335)	387	459	61	(186)	-	(2.614)
Change in interest rates +1% - effect on profit	3.335	(387)	(459)	(61)	186	-	2.614

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.2 Market risk (continued)

36.2.3 Currency risk

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

THE GROUP

	2017			2016		
Currency	Net open position €'000	Change in exchange rates %	Effect on profits €'000	Net open position €'000	Change in exchange rates %	Effect on profits €'000
US Dollar	(39)	+10	(4)	91	+10	9
British Pound	(60)	+10	(6)	2	+10	-
Russian Rouble	(149)	+30	(45)	(141)	+30	(42)
Other currencies	(37)	+10	(4)	51	+10	5
US Dollar	(39)	-10	4	91	-10	(9)
British Pound	(60)	-10	6	2	-10	-
Russian Rouble	(149)	-30	45	(141)	-30	42
Other currencies	(37)	-10	4	51	-10	(5)

THE BANK

	2017			2016		
Currency	Net open position €'000	Change in exchange rates %	Effect on profits €'000	Net open position €'000	Change in exchange rates %	Effect on profits €'000
US Dollar	(39)	+10	(4)	84	+10	8
British Pound	(60)	+10	(6)	2	+10	-
Russian Rouble	(108)	+30	(32)	(129)	+30	(39)
Other currencies	(37)	+10	(4)	51	+10	5
US Dollar	(39)	-10	4	84	-10	(8)
British Pound	(60)	-10	6	2	-10	-
Russian Rouble	(108)	-30	32	(129)	-30	39
Other currencies	(37)	-10	4	51	-10	(5)

NOTES TO THE FINANCIAL STATEMENTS

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36. RISK MANAGEMENT (continued)

36.3 Liquidity risk

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

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

Treasury manages liquidity risk on a continuous basis by closely monitoring the relationship between cash flow obligations and liquid assets and timely action is being taken to secure financial resources to meet the Group's funding requirements. The Group maintains at all times adequate amounts of cash and other highly liquid assets.

Key liquidity ratios

The Group must comply, among others, with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61. The LCR was in effect from 1 October 2015 with a regulatory limit of 60% increasing to 100% from 1 January 2018 when the full phase-in of the requirement is applied.

LCR is calculated as the ratio of high quality liquid assets over the expected net liquidity outflows during the next 30 days, as these net outflows are specified under a stress test scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Group as at 31 December 2017 was 416% (31.12.2016: 317%) and the Bank 413% (31.12.2016: 312%).

An analysis of financial liabilities as at 31 December according to their residual contractual maturities is as follows:

THE GROUP
2017

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Bank borrowings	-	-	201	1.800	2.001
Client deposits	263.170	63.061	149.067	5.340	480.638
Liabilities of subsidiary company held for sale	774	218	2.070	78	3.140
Deferred taxation	-	-	-	319	319
Accruals and other liabilities	9.460	-	-	1.214	10.674
	273.404	63.279	151.338	8.751	496.772
OFF BALANCE SHEET					
Guarantees issued	780	1.945	9.947	8.630	21.302
Undrawn facilities	2.457	4.958	19.458	10.845	37.718
	3.237	6.903	29.405	19.475	59.020

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36. RISK MANAGEMENT (continued)

36.3 Liquidity risk (continued)

THE GROUP
2016

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Client deposits	245.947	83.202	114.388	15.844	459.381
Liabilities of subsidiary company held for sale	1.631	1.750	2.801	440	6.622
Accruals and other liabilities	27.294	990	379	1.649	30.312
	274.872	85.942	117.568	17.933	496.315
OFF BALANCE SHEET					
Guarantees issued	2.632	3.279	10.877	2.683	19.471
Undrawn facilities	6.014	4.010	4.000	26.066	40.090
	8.646	7.289	14.877	28.749	59.561

THE BANK
2017

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Bank borrowings	-	-	201	1.800	2.001
Client deposits	263.170	63.061	149.067	5.340	480.638
Accruals and other liabilities	9.460	-	-	849	10.309
	272.630	63.061	149.268	7.989	492.948
OFF BALANCE SHEET					
Guarantees issued	780	1.945	9.947	8.630	21.302
Undrawn facilities	2.457	4.958	19.458	10.845	37.718
	3.237	6.903	29.405	19.475	59.020

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.3 Liquidity risk (continued)

THE BANK

2016

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Client deposits	245.947	83.202	114.388	15.844	459.381
Accruals and other liabilities	27.294	880	379	1.649	30.202
	273.241	84.082	114.767	17.493	489.583
OFF BALANCE SHEET					
Guarantees issued	2.632	3.279	10.877	2.683	19.471
Undrawn facilities	6.014	4.010	4.000	26.066	40.090
	8.646	7.289	14.877	28.749	59.561

Encumbered assets

Balances with other banks as at 31 December 2017 include an amount of €894 thousand used to cover collateral required for trade finance transactions and guarantees issued for clients. Balances with other banks as at 31 December 2016 include an amount of €2.820 thousand used to cover collateral required for interbank transactions.

36.4 Operational risk

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

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

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

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

Business Continuity Plans and Disaster Recovery Plans have been developed by the Group and are regularly updated to ensure continuity and timely recovery of operations after a potentially catastrophic event.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.5 Capital management

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group and for the Bank. The individual capital requirements of the subsidiary company JSC cdbbank are set and monitored by the Central Bank of the Russian Federation. The capital requirements of the subsidiary company Global Capital Securities and Financial Services Ltd are set and monitored by the Cyprus Securities and Exchange Commission. All Group subsidiaries adhere to the mandatory capital requirements of the respective supervisory authorities.

The CBC requires the Group to maintain a prescribed capital adequacy ratio, which is the ratio of total eligible capital to total risk-weighted assets, in accordance with Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms.

The minimum Pillar I total capital requirement is 8,0% which should be met by at least 6,0% Tier 1 capital of which 4,5% minimum Common Equity Tier 1 (CET 1) capital. The Group is also subject to additional capital requirements for risks which are not covered under Pillar I capital requirements. In February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, the Central Bank of Cyprus determined the additional capital requirements to be met by CET 1 capital to be 5,2% of the Group's risk weighted assets. In addition to the total SREP capital requirement, the Group is also required to maintain a capital conservation buffer of 1,25% from 1 January 2017 increasing to 1,875% from 1 January 2018. For 2017 the Bank was required to maintain on a consolidated basis, a total CET 1 capital ratio of 14,45% (15,075% from 1 January 2018).

The Group's total capital adequacy ratio as at 31 December 2017 amounted to 14,29% and is marginally below the capital requirements set by the Central Bank of Cyprus. The Management Body and Management are taking measures to strengthen the capital base, consisting of both internal measures as well as of additional capital contributions from shareholders and others, so as to maintain the total SREP capital requirement and the conservation buffer.

The Group's regulatory capital is analysed as follows:

Common Equity Tier I Capital:	It includes share capital, share premium, retained earnings, current year's profits, revaluation and other reserves. Intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier I Capital subject to transitional provisions.
Additional Tier I Capital:	It includes the Perpetual Unsecured Subordinated Note

The Group and the Bank adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RISK MANAGEMENT (continued)

36.5 Capital management (continued)

The Group's and the Bank's regulatory capital position as at 31 December, calculated is as follows:

	THE GROUP		THE BANK	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Regulatory capital				
Common equity Tier I capital	41.503	41.025	41.432	40.924
Additional Tier I capital	5.000	-	5.000	-
Total regulatory capital	46.503	41.025	46.432	40.924
Risk weighted assets				
Credit risk	300.921	328.887	302.476	329.086
Market risk	-	2.200	-	2.175
Operational risk	24.550	26.925	22.750	24.513
Credit valuation adjustment	-	138	-	138
Total risk weighted assets	325.471	358.150	326.226	355.912
CET1 Capital ratio	12,75%	11,45%	12,70%	11,50%
T1 Capital ratio	14,29%	11,45%	14,23%	11,50%
Total capital adequacy ratio	**14,29%**	**11,45%**	**14,23%**	**11,50%**

36.6 Leverage Ratio Requirements

The Basel III framework introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and will be a binding requirement as from 1 January 2018. The leverage ratio is submitted to the regulatory authorities on a quarterly basis.

The Leverage Ratio of the Group as at 31 December 2017 was 8,12% (31.12.2016: 7,27%) and the Bank 8,17% (31.12.2016: 7,34%), significantly above the 3% minimum threshold applied by the competent authorities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. LITIGATION

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As at 31 December 2017, there were pending litigations against the Bank arising in the ordinary course of the Bank's business as well as a legal action by two of the Bank's shareholders. While the outcome of these matters is inherently uncertain the Bank considers, based on the information available, that the probability of outflow is remote and therefore no provision was recorded against these cases.

38. SHAREHOLDERS

Following clearances obtained from the authorities, namely the European Central Bank and the Cyprus Securities and Exchange Commission, as well as the rejection on 30 April 2018 by the District Court of Nicosia, of the application of shareholders Loramina Trading Ltd and Dayarona Trading Ltd for an interim order restraining the transfer of their 9.728.869 Class B shares to other shareholders, the Bank proceeded with the registration of the transfer of 8.755.982 Class B shares of Loramina Trading Ltd and 972.887 Class B shares of Dayarona Trading Ltd to the existing shareholders Path Holdings Ltd, Leon Investment S.A., Constantinos Shiacolas, Delphis Investments Ltd, Leonidas Ioannou, Intergaz Ltd, Panikos Katsouris and Antonios Yerolemou. The shareholding structure after the transfers is as follows:

	Shareholding structure after the transfer	Shareholding structure before the transfer
Path Holdings Ltd	17,70%	9,81%
Leon Investment S.A.	17,70%	9,81%
Constantinos Shiacolas	14,16%	7,85%
Delphis Investments Ltd	12,72%	7,05%
Leonidas Ioannou	12,72%	7,05%
Loramina Trading Ltd	11,34%	45,06%
Intergaz Ltd	8,85%	4,91%
CLR Investment Fund Public Ltd	2,35%	2,35%
Dayarona Trading Ltd	1,26%	5,01%
Emerging Financial Partners Ltd	0,96%	0,96%
Antonis Yerolemou	0,12%	0,07%
Panikos Katsouris	0,12%	0,07%

Notwithstanding the difference in their nominal value and their segregation into two classes, both Class A shares and Class B shares rank pari passu in all respects including voting, return of capital etc, except that Class A shares shall carry a right to a preference cumulative dividend as described in the Bank's Articles of Association.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

Fees and emoluments of members of the Management Body and key management personnel

	2017 €'000	2016 €'000
Directors' emoluments		
Executives		
Salaries	225	223
Employers contributions for social insurance, etc	18	21
Retirement benefits	14	21
Amounts paid on termination	-	180
	257	445
Non-executives		
Fees	249	145
	506	590

	2017 €'000	2016 €'000
Key management personnel emoluments		
Salaries	247	356
Employers contributions for social insurance, etc	18	37
Retirement benefits	22	33
Amounts paid on termination	-	344
	287	770
Total	793	1.360

Key management personnel

Key management personnel emoluments for 2017 include the remuneration of the Acting Chief Executive Officer for the period of his appointment and the General Manager Administration.

Key management personnel emoluments for 2016 include the remuneration of the Acting Chief Executive Officer from the date of his appointment, the General Manager Administration and the Deputy Chief Executive Officer and General Manager Business up to the date of termination.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. RELATED PARTY TRANSACTIONS (continued)

THE GROUP AND THE BANK

Members of the Management Body and connected persons

Connected persons include spouses, minor children and companies in which members of the Management Body, hold directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

	2017 €'000	2016 €'000
Loans and advances	293	271
Deposits	631	521
Unutilised limits	63	74
Interest income for the year	11	12
Interest expense for the year	7	8

Key Management personnel who are not Directors and their connected persons

Connected persons include spouses, minor children and companies in which the key management personnel who were not Directors hold, directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

	2017 €'000	2016 €'000
Loans and advances	238	238
Deposits	53	323
Guarantees and unutilized limits	16	40
Interest income for the year	1	2
Interest expense for the year	5	6

All transactions with members of the Management Body and their connected persons are made on normal business terms.

Transactions with key management personnel are made according to the terms applicable to the rest of the personnel of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

40. OPERATING ENVIRONMENT

Economic recovery in Cyprus continued in 2017 and the medium-term outlook is favourable driven by an improving labour market, broadening investments and increasing resilience. Cyprus continues to face challenges primarily in relation to public and private indebtedness and non-performing exposures (NPEs), but while more remains to be done, progress has been achieved.

Real Gross Domestic Product (GDP) in Cyprus increased by 3,9% in 2017 according to the Cyprus Statistical Service, compared with a 3,4% increase the previous year. In the labour market, the unemployment rate dropped to 11% on average in the year from 13% the year before according to the Cyprus Statistical Service. Average consumer inflation was marginally positive at 0,5% after four years of deflation. In the public sector the budget surplus increased significantly and the trend in the public debt to GDP ratio appears to be reversing downward. In the banking sector funding conditions continued to improve against a backdrop of favourable developments regarding NPEs.

The growth momentum is expected to be maintained in the medium term. Real GDP is expected to grow by 3,6% in 2018 and by 2,9% in 2019, slowing towards 2,5% by 2022 according to the International Monetary Fund (Cyprus country report, December 2017). Growth is expected to be supported by private consumption and Investment expenditures and by an improving and robust labour market. On the supply side, growth is expected to be driven by favourable developments in the tourism sector and robust performance in business services. Tourism remains robust and continues to benefit from geopolitical uncertainties in competing destinations. Tourist arrivals in 2017 reached 3,7 million persons, and revenues reached an estimated €2,6 billion or c.13,7% of GDP.

In the banking sector there have been significant improvements in funding conditions and asset quality. Total deposits increased marginally by 0,8% in the year, with resident deposits increasing by 3,3%. Loan deleveraging continued in the year with total loans outstanding dropping by 7,1% and loans to residents dropping by 4,8% (according to Central Bank of Cyprus (CBC) data).

The Cyprus Government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in April 2018 Fitch Ratings upgraded its long-term issuer default rating to BB+ from BB with positive outlook. In March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In July 2017, Moody's Investors Service upgraded the long-term issue rating of this Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. EVENTS AFTER THE REPORTING PERIOD

Change in shareholding structure of the Bank

Following clearances obtained from the authorities, namely the European Central Bank and the Cyprus Securities and Exchange Commission, as well as the rejection on 30 April 2018 by the District Court of Nicosia, of the application of shareholders Loramina Trading Ltd and Dayarona Trading Ltd for an interim order restraining the transfer of their 9.728.869 Class B shares to other shareholders, the Bank proceeded with the registration of the transfer of 8.755.982 Class B shares of Loramina Trading Ltd and 972.887 Class B shares of Dayarona Trading Ltd to the existing shareholders Path Holdings Ltd, Leon Investment S.A., Constantinos Shiacolas, Delphis Investments Ltd, Leonidas Ioannou, Intergaz Ltd, Panikos Katsouris and Antonios Yerolemou. The shareholding structure after the transfers is presented in note 38 to the financial statements.