ANNUAL FINANCIAL REPORT 2018

Contents

Board of Directors

Andreas C. Kritiotis (Chairman) – appointed 1 February 2019

Charalambos Panayiotou (Vice Chairman)

Chloi Kyprianou Bohm (Non-executive) – appointed 27 February 2019

Marios Clerides (Non-executive)

Evan Gavas (Non-executive) – resigned 27 August 2018

Bo Sievert Larsson (Non-executive)

Athena Papadopoulou (Non-executive)

Martin Eduard Philip Schenk (Non-executive) – resigned as Chairman and appointed member 31 January 2019

Charidemos Theocharides (Non-executive)

Ioannis Loizou (Executive)

Evgenia Christodoulou (Executive)

Secretary

Christos Papoutsas

Chief Executive Officer

Ioannis Loizou

Chief Financial Officer

Savvas Pashias

Registered Office

12 Demostheni Severi
1st floor
1080 Nicosia
Cyprus

Legal Advisors

Chryssafinis & Polyviou LLC

Independent Auditors

Deloitte Limited

Tax Advisors

KPMG Limited

The Board of Directors of Ancoria Bank Limited (the 'Company' or the 'Bank') submits to the shareholders its Management Report and the audited financial statements for the year ended 31 December 2018.

Incorporation

The Company was incorporated in Cyprus on 20 August 2013 as a limited liability company under the Cyprus Companies Law, Cap.113.

On 24 November 2014, the Company passed a special resolution to change its name from "Ancoria Holdings Limited" to "Ancoria Bank Limited". The name change was approved by the Registrar of Companies on 30 April 2015.

Principal activity

The principal activity of the Company is the provision of banking services.

On 14 October 2013, the Company filed an application with the Central Bank of Cyprus for a banking licence to enable the Company to operate as a Credit Institution under the Business of Credit Institutions Laws of 1997 and all amendments thereafter.

On 3 November 2014, the banking licence was granted by the Central Bank of Cyprus, subject to certain conditions that needed to be fulfilled prior to the commencement of any banking operations. These conditions have been fulfilled during 2015, and the Company begun operations as a Credit Institution during the last quarter of 2015.

Operating environment of the Bank and future developments

The Board of Directors recognises the difficulties involved in predicting all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Bank. The Board of Directors will closely monitor all future developments in the economic and political environment it operates and take appropriate measures.

The Board of Directors is intensifying its efforts to develop the operations of the Bank in a manner consistent with the expectations of its stakeholders and regulators. As part of these efforts, amongst others, it has approved the revised 5-year business plan which will allow the Bank to fulfil its business objectives and become profitable. The revised business plan will enable the Bank to substantially increase its operations during this period and requires a share capital increase, for which the major shareholder of the parent company, Ancoria Investments Plc, has already committed to participate.

Detailed information about the operating environment is set out in Note 33 to the financial statements.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2018 and as of the date of this report are presented on page 2.

Other than the resignation of Mr Evan Gavas, there were no significant changes in the composition, distribution of responsibilities or compensation of the Board of Directors during the year ended 31 December 2018. During 2019, Mr Andreas C. Kritiotis and Ms Chloi Kyprianou Bohm were appointed in office.

In accordance with the Company's Articles of Association, all directors presently members of the Board continue in office.

Financial Results and Financial Position

The Bank's results for the year are set out on page 6.

The main financial highlights of the Bank for year 2018 are as follows:

	2018	2017
	€	€
Profit or Loss		
Net interest income	**1.529.952**	832.845
Operating income	**1.893.811**	966.781
Loss before loss allowance	**(4.945.935)**	(5.355.605)
Loss allowance	**(190.208)**	(312.568)
Loss for the year before tax	**(5.136.143)**	(5.668.173)
Loss for the year after tax	**(5.136.336)**	(5.668.201)
Loss per ordinary share in issue (€)[1]	**(50,85)**	(56,12)

	2018	2017
	€	€
Key Financial Position figures and ratios		
Customer deposits	**159.561.260**	59.609.942
Loans and advances to customers (gross)	**117.961.020**	63.586.819
Loans and advances to customers (net)	**117.507.959**	63.278.220
Net loans to deposits ratio	**74%**	106%
Loans in arrears over 90 days	**4.142**	-
Common Equity Tier 1 Capital ratio	**37,7%**	82,9%
Total Capital ratio	**37,7%**	82,9%
Risk weighted assets	**78.741.999**	41.944.258

Dividends

In 2018, no dividends were paid or declared by the Bank (2017: €nil).

Business Centres

The Bank operates through three business centres located in Nicosia, Limassol and Larnaca.

[1] Loss per ordinary share is calculated by dividing the loss for the year after tax by the weighted average number of ordinary shares outstanding during the period.

Information relating to share capital

Authorised capital

Under its Memorandum of Association, the Company fixed its authorised share capital at 1.000 ordinary shares of nominal value of €1 each. On 15 December 2014, the Company increased its authorised capital to 201.000 ordinary shares of nominal value of €1 each.

Issued capital

Upon incorporation on 20 August 2013, the Company issued to the subscribers of its Memorandum of Association 1.000 ordinary shares of €1 each at par.

On 15 December 2014, the Company issued 50.000 additional ordinary shares of €1 each, at a premium of €499 each. On 29 December 2014, the Company issued 38.493 additional ordinary shares of €1 each, at a premium of €499 each.

On 24 July 2015, the Bank issued 11.507 additional ordinary shares of €1 each, at a premium of €499 each.

As at 31 December 2018, the issued share capital of the Bank amounted to €50 million, through contributions from its immediate parent company.

There are no restrictions on the transfer of the Bank's ordinary shares other than the provisions of the Bank's Articles of Association and the Banking Law of Cyprus which requires the approval of the Central Bank of Cyprus prior to the acquiring of shares of the Bank in excess of certain thresholds.

Risk management

The Bank considers risk management to be a major process and a significant factor contributing towards the safeguarding of a stable return to its shareholders. The financial risks that the Bank is exposed to are mainly credit risk, operational risk, market risk, liquidity risk and capital risk. Detailed information relating to risk management is set out in Note 30 to the financial statements.

Events after the reporting date

Any significant events that occurred after the reporting date are described in Note 35 to the financial statements.

Independent auditors

The independent auditors of the Bank, Deloitte Limited, have expressed their willingness to continue in office. A resolution for the election of the Bank's independent auditors and their remuneration will be proposed at the shareholders' Annual General Meeting.

By order of the Board of Directors

Christos Papoutsas
Secretary

17 April 2019

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

	Note	2018 €	2017 €
Interest income	*4*	**2.172.705**	1.092.878
Interest expense	*5*	**(642.753)**	(260.033)
Net interest income		**1.529.952**	832.845
Fee and commission income		**445.305**	195.331
Fee and commission expense		**(118.092)**	(70.295)
Net fee and commission income		**327.213**	125.036
Net foreign exchange gains / (losses)		**25.818**	(7.847)
Fair value loss on revaluation of financial assets	*14*	**(20.000)**	-
Gain on disposal of financial instruments		**12.783**	-
Other income		**18.045**	16.747
Operating income		**1.893.811**	966.781
Staff costs	*6*	**(3.164.546)**	(2.940.868)
Depreciation and amortisation of property, equipment and intangible assets	*18,19*	**(1.196.069)**	(1.070.142)
Other operating expenses	*7*	**(2.479.131)**	(2.311.376)
Loss before loss allowance		**(4.945.935)**	(5.355.605)
Loss allowance	*8*	**(190.208)**	(312.568)
Loss before tax	*9*	**(5.136.143)**	(5.668.173)
Income tax	*10*	**(193)**	(28)
Loss for the year		**(5.136.336)**	(5.668.201)
Other comprehensive income that will not be reclassified to profit or loss			
Loss on revaluation on equity instruments at fair value through other comprehensive income	*24*	**(657)**	-
Other comprehensive income that will be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income			
Loss on revaluation	*24*	**(39.584)**	-
Available-for-sale financial assets			
Gain on revaluation		**-**	17.364
Total comprehensive loss for the year		**(5.176.577)**	(5.650.837)

Statement of Financial Position
as at 31 December 2018

	Note	2018 €	2017 €
ASSETS			
Cash and balances with Central Bank	*11*	**45.422.223**	20.164.025
Placements with banks	*12*	**4.400.184**	2.615.172
Loans and advances to customers	*13*	**117.507.959**	63.278.220
Financial assets at fair value through profit or loss	*14*	**-**	-
Investments at fair value through other comprehensive income	*15*	**2.172.230**	-
Investments available-for-sale	*15*	**-**	2.212.743
Investments at amortised cost	*16*	**18.059.958**	-
Investments held-to-maturity	*16*	**-**	4.229.770
Other assets	*17*	**2.236.286**	1.424.750
Property and equipment	*18*	**6.678.348**	5.007.476
Intangible assets	*19*	**729.740**	886.146
Total assets		**197.206.928**	99.818.302
LIABILITIES			
Customer deposits	*20*	**159.561.260**	59.609.942
Other borrowings	*21*	**5.351.684**	3.004.737
Provisions and other liabilities	*22*	**1.915.410**	1.648.472
Total liabilities		**166.828.354**	64.263.151
EQUITY			
Share capital	*23*	**101.000**	101.000
Share premium	*23*	**49.900.000**	49.900.000
Revaluation reserve	*24*	**(23.049)**	17.192
Accumulated losses	*25*	**(19.599.377)**	(14.463.041)
Total equity		**30.378.574**	35.555.151
Total liabilities and equity		**197.206.928**	99.818.302

On 17 April 2019, the Board of Directors of Ancoria Bank Limited authorised these financial statements for issue.

Andreas C. Kritiotis
Chairman of the Board ....

Charalambos Panayiotou
Vice Chairman of the Board ....

Ioannis Loizou
Member of the Board and Chief Executive Officer ....

Savvas Pashias
Chief Financial Officer ....

Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital *(Note 23)*	Share premium *(Note 23)*	Revaluation reserve *(Note 24)*	Accumulated losses *(Note 25)*	Total
	€	**€**	**€**	**€**	**€**
Balance at 1 January 2018	101.000	49.900.000	17.192	(14.463.041)	35.555.151
Comprehensive income					
Loss for the year	-	-	-	(5.136.336)	(5.136.336)
Other comprehensive loss for the year	-	-	(40.241)	-	(40.241)
Total comprehensive loss for the year	-	-	(40.241)	(5.136.336)	(5.176.577)
Balance as at 31 December 2018	**101.000**	**49.900.000**	**(23.049)**	**(19.599.377)**	**30.378.574**
Balance at 1 January 2017	101.000	49.900.000	(172)	(8.794.840)	41.205.988
Comprehensive income					
Loss for the year	-	-	-	(5.668.201)	(5.668.201)
Other comprehensive income for the year	-	-	17.364	-	17.364
Total comprehensive income/(loss) for the year	-	-	17.364	(5.668.201)	(5.650.837)
Balance at 31 December 2017	101.000	49.900.000	17.192	(14.463.041)	35.555.151

Share premium is not available for distribution.

Statement of Cash Flows
for the year ended 31 December 2018

	Note	**2018** €	2017 €
Net cash flow from / (used in) operating activities	*28*	**42.196.510**	(17.553.277)
Cash flow from investing activities			
Purchase of property, equipment and intangible assets	*18,19*	**(2.253.023)**	(2.556.599)
Assets originated at fair value through profit or loss		**(20.000)**	-
Purchase of available-for-sale investments		**-**	(1.891.660)
Purchase of investments at amortised cost		**(14.459.094)**	-
Purchase of held-to-maturity investments		**-**	(18.408.454)
Disposal of investments at amortised cost		**546.040**	-
Redemption of held-to-maturity investments		**-**	22.500.000
Net cash flow used in investing activities		**(16.186.077)**	(356.713)
Net increase / (decrease) in cash and cash equivalents		**26.010.433**	(17.909.990)
Cash and cash equivalents			
At 1 January		**22.318.881**	40.228.871
Net increase / (decrease) in cash and cash equivalents		**26.010.433**	(17.909.990)
At 31 December	*29*	**48.329.314**	22.318.881

Significant non-cash transactions are disclosed in the notes to the financial statements.

1. Corporate information

The financial statements of Ancoria Bank Limited (the ‘Company’, or the ‘Bank’) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 17 April 2019.

The Bank, which commenced operations in 2015, provides banking services in Cyprus. Its registered office is at 12 Demostheni Severi, 1st floor, 1080 Nicosia, Cyprus.

The Bank was incorporated in Cyprus on 20 August 2013 as a limited liability company under the Cyprus Companies Law, Cap.113.

On 14 October 2013, the Company filed an application with the Central Bank of Cyprus (‘CBC’) for a banking licence to enable the Company to operate as a Credit Institution under the Business of Credit Institutions Laws of 1997 and all amendments thereafter including No.4 of 2013.

On 3 November 2014, the banking licence was granted by the CBC subject to certain conditions that needed to be fulfilled prior to the commencement of any banking operations. These conditions were fulfilled during 2015 and the Company started its operations as a Credit Institution during the last quarter of the year.

On 24 November 2014, the Company passed a special resolution to change its name from ‘Ancoria Holdings Limited’ to ‘Ancoria Bank Limited’. The name change was approved by the Registrar of Companies on 30 April 2015.

The Company is a wholly owned subsidiary of, and ultimately controlled by, Ancoria Investments Plc which is registered in Cyprus, and which prepares consolidated financial statements including the results, position and cash flows of the Company.

2. Significant accounting policies

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

2.1. Basis of preparation

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

The financial statements are presented in Euro (€) and have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding the expected recovery or settlement of any asset and liability within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 26.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Bank's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates (refer to Note 3 for a description of significant judgments and estimates).

2. Significant accounting policies (continued)

2.2. Adoption of new and revised IFRSs

In the current year, the Bank has adopted all the new and revised IFRSs that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2018.

Standard / Interpretation	**Effective for annual periods beginning on or after**
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 9 *Financial Instruments*	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018
Clarification to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	1 January 2018
Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to IAS 40 *Transfers of Investment Property*	1 January 2018
IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018

The adoption of these new and revised Standards an Interpretations, did not have a material effect on the accounting policies of the Bank, except from the adoption of IFRS 9 *Financial Instruments* as described below.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement* and introduced new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank applied IFRS 9 on 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 that would have been recognised directly in equity as of 1 January 2018, had they been material, are disclosed further below.

The Bank's measurement categories of financial assets under IAS 39 have been reclassified to IFRS 9 measurement categories as follows:

Measurement categories under IAS 39	Measurement categories under IFRS 9
Loans and receivables measured at amortised cost (category includes cash equivalents and placements with banks)	Amortised cost
Held-to-maturity debt investments	Amortised cost
Available-for-sale debt investments	Debt investments at FVOCI, with gains or losses recycled to profit or loss on derecognition
Available-for-sale equity investments	Equity investments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition

2. Significant accounting policies (continued)

2.2. Adoption of new and revised IFRSs (continued)

The reconciliation of the net carrying amount of loans and advances to customers, debt investments measured at amortised cost, debt investments measured at fair value through other comprehensive income (‘FVOCI’), as well as, the provision for financial guarantees and commitments under IAS 39, with their respective net carrying amount after expected credit loss (‘ECL’) remeasurement under IFRS 9 is disclosed below.

	Per IAS 39 31 December 2017	ECL remeasurement	Per IFRS 9 1 January 2018
Carrying value	**€**	**€**	**€**
Loans and advances to customers	63.278.220	(15.635)	63.262.585
Investments measured at amortised cost (measurement category as per IAS 39: held-to-maturity)	4.229.770	(15.111)	4.214.659
Investments measured at FVOCI (measurement category as per IAS 39: available-for-sale)	2.212.743	(198)	2.212.545
Loss allowance on financial guarantees and loan commitments	(70.549)	28.172	(42.377)
		(2.772)	

Under IFRS 9, the ECL model adopts a forward-looking approach and differs from IAS 39’s incurred credit loss approach in determining loss allowances.

The analysis of the net carrying amount as of 1 January 2018 for on-balance sheet items together with exposures to off-balance sheet items (financial guarantees and loan commitments) under IFRS 9 by stage is provided below.

	€
Stage 1	89.232.308
Stage 2	1.015.536
Stage 3	-
	90.247.844

2. Significant accounting policies (continued)

2.2. Adoption of new and revised IFRSs (continued)

Loans and advances to customers

	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Total		
	Gross value €	Loss allowance €	Gross value €	Loss allowance €	Gross value €	Loss allowance €	Carrying value €
Retail	46.689.550	(70.255)	412.320	(20.479)	47.101.870	(90.734)	47.011.136
Business	15.968.331	(207.791)	516.618	(25.709)	16.484.949	(233.500)	16.251.449
	62.657.881	**(278.046)**	**928.938**	**(46.188)**	**63.586.819**	**(324.234)**	**63.262.585**

Financial guarantees and loan commitments

	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Total		
	Gross exposure €	Loss allowance €	Gross exposure €	Loss allowance €	Gross exposure €	Loss allowance €	Net exposure €
Retail	11.935.801	(12.892)	20.000	(616)	11.955.801	(13.508)	11.942.293
Business	8.610.550	(27.722)	114.549	(1.147)	8.725.099	(28.869)	8.696.230
	20.546.351	**(40.614)**	**134.549**	**(1.763)**	**20.680.900**	**(42.377)**	**20.638.523**

Investments

	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Total		
	Gross value €	Loss allowance €	Gross value €	Loss allowance €	Gross value €	Loss allowance €	Carrying value €
At amortised cost	4.229.770	(15.111)	-	-	4.229.770	(15.111)	4.214.659
At FVOCI*	2.132.275	(198)	-	-	2.132.275	(198)	2.132.077
	6.362.045	**(15.309)**	**-**	**-**	**6.362.045**	**(15.309)**	**6.346.736**
Total	**89.566.277**	**(333.969)**	**1.063.487**	**(47.951)**	**90.629.764**	**(381.920)**	**90.247.844**

**For the purpose of meeting the table requirements, the investments at FVOCI do not include equity investments because they are not subject to impairment*.

IFRS 15 *Revenue from Contracts with Customers*

On 1 January 2018, the Bank adopted IFRS 15 *Revenue from Contracts with Customers,* which specifies how and when revenue is recognized and applies to all contracts with customers, except those which are in scope of other standards such as income recognition related to financial instruments in scope of IFRS 9 *Financial Instruments.* The standard's requirements apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Bank's ordinary activities (e.g. sales of property, plant and equipment or intangibles).

IFRS 15 specifies that variable consideration is only recognized when the related performance obligation has been satisfied and to the extent that it is highly probably that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

IFRS 15 also provides guidance on when revenues and expenses should be presented on a gross or net basis and establishes a cohesive set of disclosure requirements for information on the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Adoption of IFRS 15 did not have a material impact on the Bank's financial statements.

2. Significant accounting policies (continued)

2.3. Standards, Interpretations and Amendments issued but not yet effective

Up to the date of approval of these financial statements, the following standards have been published by the International Accounting Standards Board ('IASB') but were not yet effective:

a) Adopted by the EU

Standard / Interpretation	**Effective for annual periods beginning on or after**
IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IFRS 9 *Prepayment Features with Negative Compensation*	1 January 2019
IFRS 16 *Leases*	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*	1 January 2019

b) Not yet adopted by the EU

Standard / Interpretation	**Effective for annual periods beginning on or after**
Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred indefinitely
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 *Business Combinations*	1 January 2020
Amendments to IAS 1 and IAS 8 *Definition of Material*	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021

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

IFRS 16 *Leases*

IFRS 16 *Leases* was issued in January 2016 to replace IAS 17 *Leases*. The Bank will apply the standard with effect from 1 January 2019. Lessees will capitalise operating leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments will be recognised as lease liabilities.

The most significant impact from initially applying IFRS 16 will be to recognise rights of use assets in respect of branches and office properties leased by the Bank under contracts classified as operating leases under IAS 17. The Bank will apply IFRS 16 on a modified retrospective basis without restating prior years and electing for certain exemptions on transition at 1 January 2019. Under IFRS 16, the Bank will be reporting additional depreciation / amortisation on right of use assets and finance charges in relation to the resultant lease liabilities, while rental expenses on contracts classified as operating leases will cease.

2. Significant accounting policies (continued)

2.3. Standards, Interpretations and Amendments issued but not yet effective (continued)

The opening statement of financial position of the Bank at 1 January 2019 will be adjusted to create a right of use asset. On transition, the right of use asset was measured as if the standard had been applied since the commencement date, but using the incremental borrowing rate at the date of initial application. Retained earnings, as well as the Common Equity Tier 1 ('CET1') ratio of the Bank will also be impacted. The Bank has elected as a policy choice permitted under IFRS 16 not to apply this standard to leases over intangible assets and instead account for such arrangements as service contracts. The Bank has finalised the quantification exercise for the impact of the new standard, which is shown below:

	1 January 2019
	€
Right-of-use assets - buildings	1.438.738
Right-of-use assets – IT equipment and applications	11.572
Total assets	**1.450.310**
Lease liabilities	1.526.876
Retained earnings	(76.566)
Total liabilities and equity	**1.450.310**
Increase in risk weighted assets	**1.450.310**
Revised CET1 ratio	**36.9%**

2.4. Revenue recognition

Revenue comprises of interest income, fee and commission income, dividend income and other income.

Interest income

For all financial assets measured at amortised cost and interest-bearing financial assets measured at fair value through other comprehensive income, interest income is recognised using the effective interest rate ('EIR') method.

The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or where appropriate a shorter period, to the carrying amount of the financial instruments. When calculating the EIR, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (e.g. prepayment, call option, etc.) but shall not consider future credit losses. The calculation includes all fees that are an integral part to the contract, incremental transaction costs and all premiums or discounts.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets except in the case of credit-impaired assets. When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. For purchased or originated credit-impaired ('POCI') financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

The EIR method also applied under IAS 39 for all financial assets measured at amortised cost and interest-bearing financial assets classified as available-for-sale investments.

The Bank holds cash and placements with banks and central banks carrying negative interest rates. The Bank discloses interest on these assets under 'Interest expense' line.

2. Significant accounting policies (continued)

2.4. Revenue recognition (continued)

Fee and commission income

The Bank earns fee and commission income from a range of services it provides to its clients. Fees and commissions in respect of loans and advances are recognised using the EIR method as part of interest income. In general, fee income can be divided into two broad categories:

- fees earned from services that are provided over a certain period of time, and
- fees earned from point in time services

<u>Over time services</u>

Fees earned from services that are provided over a certain period of time are recognised pro-rata over the service period provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of the Bank. Costs to fulfil over time services are recorded in profit or loss immediately because such services are considered to be a series of services that are substantially the same from day to day and have the same pattern of transfer.

<u>Point in time services</u>

Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not subject to refund or another contingency beyond the control of the Bank. Incremental costs to fulfil services provided at a point in time are typically incurred and recorded at the same time as the performance obligation is satisfied and revenue is earned, and are therefore not recognised as an asset. Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer. Consideration can include both fixed and variable amounts. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established. This is the ex-dividend date for listed equity securities and usually the date when shareholders approve the dividend for unlisted equity securities. Dividend income is recognised under ‘Other income’ line.

2.5. Foreign currency translation

The functional and presentation currency of the Bank is the Euro (€).

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

2. Significant accounting policies (continued)

2.5. Foreign currency translation (continued)

Foreign currency differences arising on translation are generally recognised in profit or loss under 'Net foreign exchange gains / losses' line. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income,
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective, and
- qualifying cash flow hedges to the extent that the hedge is effective.

2.6. Employee benefits

The Bank and its employees contribute to the Government Social Insurance Fund based on the employees' salaries. The Bank's contributions are expensed as incurred and are included under 'Staff costs' line.

The Bank operates a defined contribution scheme, which provides for employer contributions of 6% on the employee gross salary and employee contributions within a range of 4%-10% of their gross salary. The Bank has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employee benefits relating to employee service in the current period. This scheme is in the form of a pension plan under Ancoria Insurance Public Ltd, an indirect shareholder of the Bank.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2.7. Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax also includes withholding tax on dividends.

Tax on income is provided in accordance with the fiscal regulations and rates enacted or substantively enacted at every reporting date and is recognised as an expense in the period in which the income arises.

Deferred tax is provided using the liability method. Current income tax and deferred tax relating to items recognised directly in equity is recognised directly in equity.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the reporting date, which will give rise to taxable amounts in future periods.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantively enacted by the reporting date.

2. Significant accounting policies (continued)

2.7. Tax (continued)

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

Indirect Tax Value Added Tax ('VAT')

Expenses and assets are recognised net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case, the VAT suffered is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- when receivables and payables are stated with the amount of VAT charged. The amount of VAT recoverable from, or payable to the tax authorities, is included as part of other assets or other liabilities in the statement of financial position.

VAT is not accounted as income tax.

Special Tax Levy

According to the 'Special Levy on Credit Institutions Law of 2011 to 2017', special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31 December of the previous year for the quarter ending on 31 March, on 31 March of the same year for the quarter ending on 30 June, on 30 June of the same year for the quarter ending on 30 September and on 30 September of the same year for the quarter ending on 31 December. Based on an amendment to the Law effective as from 6 October 2017, an amount corresponding to the annual contribution of each credit institution to the Resolution Fund or to the Single Resolution Fund as the case may be, is deducted from the balance of special levy payable, up to the maximum amount of special levy for the same year.

Special tax levy on deposits is recognised in profit or loss under 'Other operating expenses' line.

Based on an amendment to the Law, as from 1 January 2015, 35/60 of the funds received were deposited to the Recapitalisation Fund incorporated pursuant to the Law 190(I) 2015. As from 1 January 2018 and for every subsequent year, 35/60 of the special levy paid in accordance with the Law, will be transferred to the Recapitalisation Fund within 45 days of their deposit in the Government General Account and the remaining 25/60 will remain in that account. All transfers to the Recapitalisation Fund will cease upon accumulation of a total amount of €175 million in that Fund.

2.8. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, non-obligatory balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.9. Financial instruments

Initial recognition

A financial asset or liability is initially recognised when the Bank becomes a party to the contractual provisions of the instrument.

Classification and measurement

A financial asset is classified as measured at either amortised cost, fair value through other comprehensive income ('FVOCI') – debt investment, FVOCI – equity investment or fair value through profit or loss ('FVTPL'). All financial assets are classified based on the business model for managing those assets and their contractual terms. The Bank may designate though financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

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

Under IAS 39, the measurement categories of financial assets were fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables.

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’),
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in profit or loss under ‘Net foreign exchange gains / losses’ line in the case of currency derivatives and under ‘Fair value gain / loss on revaluation of financial assets’ line in the case of all other derivatives.

Interest income and expense are recognised under their corresponding headings in profit or loss.

Derivatives embedded in financial liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host contract are carried at fair value under the trading portfolio with changes in fair value recognized in profit or loss under ‘Fair value gain / loss on revaluation of financial assets’ line.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated and recorded as described in the preceding paragraph.

Non-derivative financial instruments

Financial instruments measured at amortised cost (policy applicable as of 1 January 2018)

Amortised cost is calculated by taking into account any fees that are an integral part of the effective interest rate. The amortisation is included under ‘Interest income’ line and any losses arising from impairment are recognised in profit or loss under ‘Loss allowance’ line.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (‘SPPI’) on the principal amount outstanding.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

These financial assets are measured at amortised cost using the EIR method less allowances for expected credit losses which are recognised in profit or loss under ‘Loss allowance’ line.

Financial instruments measured at FVOCI (policy applicable as of 1 January 2018)

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These instruments comprise assets that had previously been classified as investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with unrealised gains and losses recognised in other comprehensive income. Upon derecognition, any accumulated balances in other comprehensive income are reclassified to profit or loss. The interest income, foreign exchange differences and expected credit losses are recognised in profit or loss under the respective lines.

An equity instrument is measured at FVOCI if it is not held for trading and the Bank has irrevocably elected to present subsequent changes in the investment’s fair value in other comprehensive income when it meets the definition of equity under IAS 32 *Financial Instruments: Presentation*. This election is made on an investment-by-investment basis. Fair value gains or losses on these equity instruments are recognised in other comprehensive income and are not recycled to profit or loss upon derecognition but are transferred directly to retained earnings. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial instruments measured at FVTPL

Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. This includes all derivative financial assets.

On initial recognition, the Bank may irrevocably designate a debt instrument that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets managed on a fair value basis and those that are held for trading are measured at fair value through profit and loss. These include financial assets acquired principally for trading, equity instruments (for which no election was made to present gains or losses in other comprehensive income), assets mandatorily measured on a fair value basis and derivatives, except to the extent that they are designated in a hedging relationship, in which case the Bank elected as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss under ‘Fair value gain / loss on revaluation of financial assets’ line.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Financial assets – Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the financial assets are managed together to achieve a particular business objective and information is provided to management. The Bank's business model assessment determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The information considered when performing the business model assessment includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets,
- how the performance of the business model (and the financial assets held within the business model) is evaluated and reported to the Bank's management,
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed,
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected, and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

On transition to IFRS 9, business models were determined on the date of initial application based on facts and circumstances that existed on 1 January 2018 and re-assessed at each reporting date.

Financial assets – Assessment whether contractual cash flows are SPPI

The Bank assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding.

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 and 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 the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument upon initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows,
- interest rates which are beyond the control of the Bank or variable interest rate consideration,
- features that could modify the time value of money,
- prepayment and extension features,
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features), and
- convertible features.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

On transition to IFRS 9, all financial assets were assessed as to whether their contractual cash flows represented SPPI on the date of initial application based on facts and circumstances that existed upon initial recognition.

Financial assets – Summary of subsequent measurement and gains and losses recognition

Category	Measured at	Gains & losses recognised in
Financial assets at FVTPL	Fair value	Profit or loss ▪ Interest income and dividend income ▪ Gains or losses on remeasurement to fair value Other comprehensive income and accumulated to hedge reserve ▪ Gains or losses for derivatives designated as hedging instruments
Financial assets at amortised cost	Amortised cost using EIR method (reduced by impairment losses)	Profit or loss ▪ Interest income, foreign exchange gains or losses and impairment ▪ Gains or losses on derecognition
Debt investments at FVOCI	Fair value	Profit or loss ▪ Interest income, foreign exchange gains or losses and impairment ▪ Gains or losses on derecognition, including transfers from revaluation reserve Other comprehensive income ▪ Gains or losses on remeasurement to fair value
Equity investments at FVOCI	Fair value	Profit or loss ▪ Dividend income, unless such represents recovery of part of cost of investment Other comprehensive income ▪ Gains or losses on remeasurement to fair value Retained earnings ▪ Gains or losses on derecognition (never reclassified to profit or loss)

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Policies applicable for subsequent measurement of financial assets prior to IFRS 9 implementation

Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as investments held for trading, available-for-sale or at fair value through profit or loss.

After their initial recognition, loans and receivables were subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment were recognized in profit or loss under ‘Loss allowance’ line.

Held-to-maturity investments

Held-to-maturity investments were those non-derivative instruments with fixed or determinable payments and fixed maturities and which the Bank had the intention and ability to hold to maturity.

After initial measurement, held-to-maturity investments were subsequently measured at amortised cost using the effective interest rate method. Amortised cost was calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation was included under ‘Interest income’ line and any losses arising from impairment of such investments were recognised in profit or loss under ‘Impairment of other financial instruments’ line.

If as a result of a change in intention or ability it was no longer appropriate to classify an investment as held-to-maturity, it was reclassified as available-for-sale and re-measured at fair value, with any difference between its carrying amount and fair value accounted for accordingly.

Available-for sale investments

Available-for-sale investments were those which were designated as such or did not qualify for classification under investments at fair value through profit or loss, investments held-to-maturity or loans and receivables. These investments could be disposed in response to changes in market risks or liquidity requirements and included equity and debt securities.

After initial recognition, available-for-sale investments were measured at fair value. Unrealised gains and losses from changes in fair value were recognised directly in other comprehensive income. When the investment was disposed of, the cumulative gain or loss previously recognised in other comprehensive income was recognised in profit or loss under ‘Gain / loss on disposal of financial instruments’ line.

Financial liabilities

Financial liabilities refer mainly to customer deposits, other borrowings and funding from other banks. Financial liabilities are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is net of directly attributable transaction costs incurred. Subsequent measurement of such financial liabilities is at amortised cost using the EIR method. The corresponding interest expense is recognised in profit or loss under ‘Interest expense’ line.

Other financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is held for trading, it is a derivative or the Bank has irrevocably elected to designate it as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

<u>Netting and derecognition of financial assets and liabilities</u>

Derecognition of financial assets

The basic premise for the derecognition model in IFRS 9, being carried over from IAS 39, is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety, or
- specifically identified cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

An asset is transferred if either the Bank has transferred the contractual rights to receive the cash flows, or the Bank has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- the Bank has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- the Bank is prohibited from selling or pledging the original asset (other than as security to the eventual recipient), and
- the Bank has an obligation to remit those cash flows without material delay.

Once the Bank has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

If the Bank has neither retained nor transferred substantially all of the risks and rewards of the asset, then it must assess whether it has relinquished control of the asset or not. If the Bank does not control the asset then derecognition is appropriate, however, if the Bank has retained control of the asset, it continues to recognise the asset to the extent to which it has a continuing involvement in the asset.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

The Bank accounts for a substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. When there is a non-substantial modification, the Bank recognizes a gain or loss in the profit or loss. The modification gain or loss is equal to the difference between the present value of the cash flows under the original and modified terms discounted at the original EIR. At the point of modification, the carrying amount of the financial liability is revised to reflect the new cash flows discounted by the original EIR.

Netting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Impairment (policy applicable as of 1 January 2018)

IFRS 9 has fundamentally changed the loan loss impairment methodology applied by the Bank. The standard has replaced IAS 39's incurred loss approach with a forward-looking expected credit loss ('ECL') approach. The Bank is required to record an allowance for expected losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination or the asset is considered credit-impaired or defaulted, in which case, the allowance is based on the probability of default over the life of the asset.

ECL is the product of probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). Loss given default is calculated after taking into consideration tangible collaterals and applicable haircuts as well as available cash balances and recovery rates. Exposure at default for on-balance sheet exposures is the outstanding balance and any accrued interest. For off-balance sheet exposures, the amount is weighted by the applicable credit conversion factor in accordance with the Capital Requirement Regulation 575/2013 ('CRR') / Capital Requirement Directive IV ('CRD IV') classification.

To calculate lifetime ECL, the Bank estimates the risk of a default occurring on the financial instrument during its remaining life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between the contractual cash flows that are due to the Bank under the contract and the cash flows that the Bank expects to receive, both discounted at the EIR of the loan.

For revolving facilities, the Bank measures 12-month ECL, as such facilities are reviewed on an annual basis according to internal procedure and, based on this review, the Bank has the right to adjust exposure amounts accordingly.

For financial guarantee contracts, a credit conversion factor in accordance with CRR / CRD IV classification is applied to determine exposure at default when estimating ECLs.

When estimating lifetime ECLs for undrawn loan commitments, the Bank:

- Estimates the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment in accordance with the loan commitment's contractual arrangements, and
- Calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

The Bank groups its loans into Stage 1, 2 and 3, based on the applied impairment methodology, as described below:

- **Stage 1 – Performing loans**

  On initial recognition, the Bank recognises an allowance based on 12-month expected credit losses. Loans considered as of low credit risk and for which there was no significant increase in credit risk continue to be classified under Stage 1. All Stage 1 facilities are measured under a collective basis (refer to Note 13 for specific parameters that apply with respect to certain shareholders, members of the Board of Directors, senior management of the Bank and their connected persons). The collective portfolio is segmented into exposures to individuals and exposures to business and then according to internal credit rating bands. As per the Bank's methodology, credit bands 1-3 fall under Stage 1 unless more than 30 days past due are present for a specific exposure. Weighted average PDs and LGDs are calculated for each band and applied at each exposure within the band.

- **Stage 2 – Underperforming loans**

  When a loan shows a significant increase in credit risk, the Bank records an allowance for the lifetime expected credit loss. A rebuttable assumption of 30 days past due holds (i.e. if a loan exceeds 30 days past due, it will remain under Stage 2). Group exposures above a specified threshold are measured under individual basis while the rest are measured under collective basis. The collective portfolio is segmented in the same way as per Stage 1. The difference between the two methodologies is that, for Stage 2, a weighted average coverage (total loss allowances / total gross value) is calculated which is then applied to each exposure in the specific group. Credit bands 4 and 5 fall under Stage 2 unless more than 90 past due are present for a specific exposure.

- **Stage 3 – Impaired loans**

  The Bank recognises lifetime expected credit losses for these loans and accrues interest income on the amortised cost of the loan net of allowances. All facilities under Stage 3 are measured under individual basis.

The Bank considers as credit-impaired debt financial assets which fall within the definition of defaulted. The Bank considers as defaulted debt financial assets which satisfy any of the following:

- Exposure is more than 90 days past due;
- The borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due;
- The facility has been forborne and is more than 30 days past due;
- The facility is considered as non-performing according to reporting rules of EBA's technical standards on supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013.

An exposure ceases to be treated as defaulted if none of the entry criteria are met.

A borrower is assessed as unlikely to meet its credit obligations if any of the following hold:

- A borrower has sought or has been placed under bankruptcy either by the Bank or an external party;
- The Bank consents to a distressed restructuring of the credit facility where it is likely to result in a reduced obligation by the borrower caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees. Material forgiveness is defined as forgiveness of 20% or more of total outstanding amounts, including principal, interest or fees.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

The Bank considers that a significant increase in credit risk occurs when:

- Exposure is more than 30 days past due at reference date;
- Change in the risk of default occurring over the remaining life of the financial instrument has increased significantly and above a specific risk of default threshold, e.g. probability of default more than doubled.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Debt instruments measured at fair value through other comprehensive income

The Bank records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as mentioned above with the exception that the rebuttable assumption of 30 days (under Stage 2) and 90 days (under Stage 3) do not hold. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities, the Bank applies a policy which assesses whether the credit risk on the instrument has not increased significantly since initial recognition and calculates 12-month ECL. All debt securities under this category have been assessed as of low risk. Such instruments generally include traded, investment grade securities where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank does not consider instruments to have low credit risk simply because of the value of collateral. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the Bank's other financial instruments.

Forward-looking information

The Bank incorporates forward-looking information in the measurement of ECLs.

The Bank considers forward-looking information such as macroeconomic factors (e.g. unemployment, GDP growth, house prices) and economic forecasts. Such macroeconomic factors are included in lifetime PD estimation, as well as, LGD calculation (both 12-month and lifetime). To evaluate a range of possible outcomes, the Bank formulates three scenarios: a base case, a pessimistic case and an optimistic case. The base case scenario represents the more likely outcome resulting from the Bank’s normal financial planning and budgeting process. Since the effort is to provide plausible scenarios, the optimistic and pessimistic scenarios represent slight variations of the base case. For each scenario, the Bank derives an ECL and applies a probability weighted approach to determine the impairment allowance.

The Bank uses published external information from government and private economic forecasting services to maintain independent input of information and assume cyclicality for the remaining maturity where forecasts are not available.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although the Bank uses latest available data wherever possible and available, models used to calculate ECLs may also include data that are not current, for which adjustments will be made for significant events occurring prior to the reporting date.

2. Significant accounting policies (continued)

2.9. Financial instruments (continued)

Hedge accounting

The Bank uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks and in the case of the hedge of net investments, the Bank uses also non-derivative financial liabilities. The Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness both at the inception and at ongoing basis, of the hedging relationship also forms part of the Bank's documentation.

At inception of the hedging relationship and at each hedge effectiveness assessment date, a formal assessment is undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk.

Per IAS 39, a hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit or loss.

IFRS 9 permits as a policy choice to continue to apply hedge accounting in accordance with IAS 39. Otherwise, hedge effectiveness under IFRS 9 is assessed on a qualitative, forward-looking approach which requires the hedge to satisfy the following:

- Economic relationship exists
- Credit risk does not dominate value changes
- Designated hedge ratio is consistent with risk management strategy

The Bank has elected as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

For the years ended 31 December 2018 and 2017, the Bank did not have any instances that deemed essential the application of hedge accounting.

2.10. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets as applicable) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ('CGUs'). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

2. Significant accounting policies (continued)

2.10. Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

2.11. Property and equipment

Freehold land and buildings

Owner-occupied property is property held by the Bank for use in the supply of services or for administrative purposes. The Bank has elected to apply the revaluation model under IAS 16 Property, Plant and Equipment with respect to owner–occupied property. Such property is initially recognised at cost and subsequently measured at fair value less accumulated depreciation and impairment. Valuations are carried out periodically between 3 to 5 years, depending on the property, by independent qualified valuators.

Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight-line basis over its estimated useful life. Gain or losses from revaluations are recognised in other comprehensive income. Useful lives are in the range of 33 to 67 years (or 1,5% to 3,0% depreciation per annum). Freehold land is not depreciated.

On disposal of freehold land and buildings, the respective balance recognised under the relevant revaluation reserve is transferred to retained earnings.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

Leasehold property

The cost of adapting / improving leasehold property is amortised on a straight-line basis over 5 to 10 years (or 10% to 20% depreciation per annum) or over the period of the lease if this does not exceed 10 years. Residual value is assumed to be nil.

Furniture and fittings

Furniture and fittings are measured at cost less accumulated depreciation. Depreciation of furniture and fittings is calculated on a straight-line basis over their estimated useful life of 5 to 10 years (or 10% to 20% depreciation per annum).

Computer hardware, security and operating systems and other equipment

Computer hardware, systems and equipment are measured at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over their estimated useful life of 5 to 10 years (or 10% to 20% depreciation per annum).

Impairment

Impairment considerations with respect to property and equipment are presented in Note 2.10.

2. Significant accounting policies (continued)

2.12. Intangible assets

Intangible assets consist of computer software and licences relating to usage of such software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in profit or loss as incurred.

Amortisation is calculated on a straight-line basis over the estimated useful life of the assets which is 3 to 5 years for computer software (or 20% to 33% depreciation per annum). Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

2.13. Provisions

Provisions for any claims against the Bank are calculated and recognised when:

- there is a present obligation (legal or constructive) arising from past events,
- the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and
- a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.14. Financial guarantees

The Bank issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value and presented on the statement of financial position under 'Provisions and other liabilities'. Subsequently, the Bank's liability under each guarantee is measured at the higher of:

a) The amount initially recognized reduced by the cumulative amortised premium which is periodically recognized in profit or loss under 'Fee and commission income' line in accordance with the terms of the guarantee, and

b) The amount of ECL allowance

ECL allowances resulting from financial guarantees are recorded in profit or loss under 'Loss allowance' line. The balance of the liability for financial guarantees that remains is recognized under 'Fee and commission income' line in profit or loss when the guarantee is fulfilled, cancelled or expired.

Under IAS 39, financial guarantees were treated and recorded as described in the preceding paragraph with the difference that on subsequent measurement the financial guarantee was measured at the higher of the amount initially recognized as described in point a) above and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

2. Significant accounting policies (continued)

2.14. Financial guarantees (continued)

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in scope of the ECL requirements. Corresponding ECL allowances are presented under ‘Provisions and other liabilities’ on the statement of financial position.

2.15. Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 *Income Taxes*.

Any difference between the issue price of share capital and the nominal value is recognised as share premium.

2.16. Related party transactions and disclosures

The Bank applies IAS 24 *Related Party Disclosures* with respect to the identification, as well as, disclosure and reporting considerations concerning related party transactions and events. To facilitate the application of principles within IAS 24, specific criteria and guidelines are taken into consideration.

A related party is a person or entity that is related to the Bank in the following circumstances and conditions:

A) A person or a close member of that person's family is related to the Bank if that person:

- has control or joint control over the Bank, or
- has significant influence over the Bank, or
- is a member of the key management personnel of the Bank or of the parent company of the Bank.

B) An entity is related to the Bank if any of the following conditions applies:

- the entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others),
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
- both entities are joint ventures of the same third party,
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity,
- the entity is a post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank,
- the entity is controlled or jointly controlled by a person identified under A),
- a person identified as having control or joint control over the Bank has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity), or
- the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent company of the Bank.

The Bank has adopted the following definition with regards to ‘key management personnel’:

- Members of the Board of Directors,
- Persons owning directly or indirectly equal or more than 25% of the Bank’s share capital, and
- Persons that have the authority to legally bind the Bank on an individual basis.

2. Significant accounting policies (continued)

2.16. Related party transactions and disclosures (continued)

The following are deemed not to be related:

- two entities simply because they have a director or key manager in common.
- two venturers who share joint control over a joint venture.
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the Bank, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence.

As a result, the following are considered related parties to the Bank:

- Parent and entities with joint control or significant influence,
- Subsidiaries and other entities of the same group,
- Associates and joint ventures,
- Key management personnel,
- Spouses of key management personnel,
- Children of key management personnel,
- Legal entities which key management personnel are directors to, and
- Legal entities to which key management personnel have direct or indirect shareholding of equal or more than 25%.

Definition of related parties in respect of legal entities ends at the legal entity level and ignores any directors or shareholders of that legal entity.

2.17. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2. Significant accounting policies (continued)

2.17. Fair value measurement (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

2.18. Comparatives

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

3. Significant accounting estimates and judgments

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Going concern

Despite recent developments in the economic environment of the Cyprus economy as mentioned in Note 33, the Bank's management has assessed the Bank's ability to continue as a going concern and is satisfied that the Bank has the financial resources to continue its business operations in the foreseeable future. Accordingly, the financial statements are prepared on the going concern basis.

3.2. Loss allowance on loans and advances to customers

The Bank reviews loans and advances to assess whether a loss allowance should be recorded in profit or loss.

For individually significant assets, loss allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account. The level of the loss allowance is the difference between the value of the expected future cash flows discounted at the loan’s original effective interest rate and its carrying amount. Subjective judgements are made in the calculation of future cash flows.

Furthermore, judgements change with time as new information becomes available, resulting in revisions to the loss allowance. Changes in these estimates would result in a change in the allowances and have a direct impact on the loss allowance charge.

3. Significant accounting estimates and judgments (continued)

3.2. Loss allowance on loans and advances to customers (continued)

In addition to loss allowances on an individual basis, the Bank also calculates loss allowances on a collective basis through the assignment of probabilities of default and loss given default for portfolios of loans with similar credit risk characteristics. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis due to the large number of loans in each portfolio. Further, the absence of historical loss experience increases estimation uncertainty.

The methodology and the assumptions used in calculating loss allowances are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances (Note 13).

3.3. Tax

The Bank is subject to Cyprus income tax. Significant estimates are required in determining the provision for taxes at the reporting date, and therefore the tax determination is uncertain. Where the final tax is different from the amounts that were initially recorded, such differences will affect the income tax expense, the tax liabilities and deferred tax liabilities of the period in which the final tax is agreed with the tax authorities.

The Bank recognises a deferred tax asset in relation to tax losses, to the extent there may be future taxable profits against which the losses may be utilised. The determination of the amount of deferred tax assets that can be recognised is based on the timing and level of future taxable profits, in combination with future tax planning strategies. These variables are determined based on significant estimates and assumptions, and are by definition uncertain. It is possible that the actual conditions in the future will be different from the assumptions used, resulting in material adjustments to the carrying value of deferred tax assets.

No deferred tax asset has been recognised in the statement of financial position as at 31 December 2018 and 2017.

3.4. Fair value of assets and liabilities (Note 2.17)

Financial assets and liabilities

The fair value of investments at amortised cost is disclosed in Note 16. Furthermore, management estimates that the fair value of all other financial assets, as well as financial liabilities, approximates their carrying amounts as presented in the statement of financial position.

Non-financial assets - Freehold land and buildings

The Bank, effective from 1 January 2018, has adopted the revaluation model under IAS 16 for freehold land and buildings. In addition to fair value measurement considerations, management exercises judgment in determining if and when a revaluation exercise would be necessary, considering, among other, the sufficiency of frequency of periodic revaluations based on the Bank's policies, as well as indicators that might, at any point in time, lead to the conclusion to carry out a revaluation exercise (e.g. when carrying amount appears to differ from assessed fair value). The Bank considered the value of the buildings as at 31 December 2018 and noted that the fair value approximates the carrying value, and therefore has not recognised a revaluation gain.

4. Interest income

	2018	2017
	€	€
Loans and advances to customers	**2.139.027**	1.065.625
Investments at amortised cost	**25.920**	-
Investments held-to-maturity	**-**	23.672
Investments at fair value through other comprehensive income	**4.309**	-
Investments available-for-sale	**-**	3.367
Placements with banks	**3.449**	214
	2.172.705	1.092.878

5. Interest expense

	2018	2017
	€	€
Customer deposits	**410.139**	153.790
Balances with Central Bank	**189.978**	81.093
Other borrowings (*Note 21*)	**26.316**	8.003
Placements with banks	**16.320**	17.147
	642.753	260.033

Balances held with the Central Bank and other banks carry negative interest, which averaged 0,40% as at 31 December 2018 (2017: 0,40%).

6. Staff costs

	2018	2017
	€	€
Staff salaries and other remuneration, net of subsidies	**2.690.957**	2.508.682
Pension plan contributions	**137.287**	127.911
Social insurance and other employer's contributions	**336.302**	304.275
	3.164.546	2.940.868

The number of persons employed by the Bank as at 31 December 2018 was 81 (2017: 75). Remuneration concerning Directors and key management personnel is disclosed in Note 32.

The Bank operates a defined contribution scheme, which provides for employer contributions of 6% on the employee gross salary and employee contributions within a range of 4%-10% of their gross salary. The Bank's contributions are expensed as incurred and are included under 'Staff costs' line. The Bank has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employee benefits relating to employee service in the current period. This scheme is in the form of a pension plan under Ancoria Insurance Public Ltd, an indirect shareholder of the Bank.

7. Other operating expenses

	2018	2017
	€	€
Rental of premises	**222.800**	318.000
Utilities and other premises expenses	**141.596**	133.981
Post and telecommunication expenses	**181.147**	129.198
Insurance expenses	**38.143**	39.349
Directors' remuneration and expenses	**111.277**	114.237
Travelling and training, net of any subsidies	**36.579**	53.191
Auditors' remuneration for statutory audit	**53.550**	48.195
Auditors' remuneration for other non-audit assurance engagements	**23.747**	-
Legal and consultancy fees	**192.142**	178.062
Advertising and promotion	**245.400**	245.836
Special tax levy on deposits (*Note 10*)	**202.509**	73.108
Supervisory fees	**83.024**	57.750
Computer supplies, maintenance and related expenses	**737.694**	697.625
Professional and trade subscriptions	**56.651**	56.008
Printing and stationery	**45.403**	36.259
Other operating expenses	**107.469**	130.577
	2.479.131	2.311.376

8. Loss allowance

	2018	2017
	€	€
Loans and advances to customers (*Note 13*)	**144.462**	242.019
Financial guarantees and commitments (*Note 22*)	**22.761**	70.549
Investments at fair value through other comprehensive income (*Note 15*)	**452**	-
Investments at amortised cost (*Note 16*)	**22.533**	-
	190.208	312.568

The table below shows the loss allowance charge per stage and by assessment approach for the year:

	2018					
	Stage 1 Individual	**Stage 1 Collective**	**Stage 2 Individual**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Loans and advances to customers	(118.244)	209.871	(7.519)	59.466	888	**144.462**
Financial guarantees and commitments	(40.979)	30.099	34.423	(782)	-	**22.761**
Investments at fair value through other comprehensive income	452	-	-	-	-	**452**
Investments at amortised cost	22.533	-	-	-	-	**22.533**
Total loss allowance	**(136.238)**	**239.970**	**26.904**	**58.684**	**888**	**190.208**

9. Loss before tax

Loss before tax is stated after charging the following items:

	2018	2017
	€	€
Directors' remuneration (*Note 32*)	**104.819**	108.412
Operating lease rentals for buildings and software	**129.349**	369.349
Auditors' remuneration for:		
- Statutory audit	**53.550**	48.195
- Other non-audit assurance engagements	**23.747**	-

All the above amounts are included under 'Other operating expenses' line.

10. Income tax

The total tax charge for the year can be reconciled to the accounting profit or loss as follows:

	2018	2017
	€	€
Loss before tax	**(5.136.143)**	(5.668.173)
Corporation tax based on the applicable rates	**(642.018)**	(708.522)
Tax effect of:		
- Non-deductible expenses	**776.049**	381.966
- Allowances and income not subject to tax	**(751.514)**	(368.053)
- Tax losses for the year	**617.483**	694.609
	-	-
Withholding tax on dividend income	**(193)**	(28)
Tax charge	**(193)**	(28)

Corporation tax is calculated at the rate of 12,5% on taxable income.

As per the Income Tax law, a company may carry forward tax losses incurred during a tax year, over the next five years to be offset against taxable income. As at 31 December 2018, the Bank's tax losses to be carried forward amounted to €18.931.616. Tax losses until year end 2016 amounting to €8.461.243 have been assessed and confirmed by the Tax Department.

No deferred tax asset was recognised in respect of tax losses due to uncertainties pertaining the amount and timing of future taxable benefits.

Special Tax Levy on Credit Institutions

According to the Special Levy on Credit Institutions Law of 2011 passed on 14 April 2011, a special levy on credit institutions was imposed on qualifying deposits held by each credit institution at 31 December of the year preceding the year of taxation. Based on the latest amendment of the Law published in the official Gazette on the 26 July 2013, the annual special tax levy is calculated on a quarterly basis at the rate 0,0375% on the deposits of financial institutions at 31st March, 30th June, 30th September and 31st December of each year.

For the year ended 31 December 2018, the total Special Tax Levy imposed on the Bank's qualifying deposits amounted to €202.509 (2017: €73.108) and is included under 'Other operating expenses' line (*Note 7*).

11. Cash and balances with Central Bank

	2018	2017
	€	€
Cash	**4.110.906**	3.394.380
Balances with Central Bank of Cyprus		
- Non-obligatory balances	**39.818.224**	16.309.329
- Obligatory balances for liquidity purposes	**1.493.093**	460.316
	45.422.223	20.164.025

The analysis of credit ratings for deposits with the CBC by independent rating agencies is presented in Note 30. Balances with CBC carry an interest charge for utilised amounts out of obligatory deposits.

12. Placements with banks

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 30.

	2018	2017
	€	€
Foreign Banks	**4.400.184**	2.615.172

Placements with foreign banks mainly refer to current balances on nostro accounts with correspondent banks. The majority of these balances in 2018 was kept with KBC Bank NV for a total amount of €2.836.848 (2017: €1.160.405). All placements with foreign banks carry an interest charge based on the interbank rate of the relevant term and currency.

13. Loans and advances to customers

	2018	2017
	€	€
Retail		
Housing	**74.374.889**	43.912.611
Consumer	**4.939.732**	3.040.435
Overdrafts	**296.851**	148.824
	79.611.472	47.101.870
Business		
Loans	**31.861.254**	14.039.071
Overdrafts	**6.488.294**	2.445.878
	38.349.548	16.484.949
Gross loans and advances to customers	**117.961.020**	63.586.819
Loss allowance on loans and advances to customers	**(453.061)**	(308.599)
	117.507.959	63.278.220

13. Loans and advances to customers (continued)

Movement of loss allowance on loans and advances to customers

	2018	2017
	€	€
1 January	**(308.599)**	(66.580)
Loss allowance for the year (*Note 8*)	**(144.462)**	(242.019)
31 December	**(453.061)**	(308.599)

There was no interest suspended as at 31 December 2018 (2017: €nil).

Non-performing exposures

On 31 December 2018, an amount of €4.142 was classified by the Bank as non-performing exposures ('NPE') in accordance with the European Banking Authority's ('EBA') technical standards published in 2014. According to the standards, the following exposures are considered NPE:

- Material exposures of more than ninety (90) days past due
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due
- The exposure is impaired as per the applicable accounting framework
- Exposures considered as in default in accordance with EU Regulation 575/2013 Article 178
- Exposures where legal action has been taken by the Bank against them or exposures of which debtors are bankrupt
- Forborne exposures reclassified from NPE status that were NPE at forbearance or became NPE after forbearance and which are re-forborne while under probation
- Forborne exposures reclassified from NPE status that were NPE at forbearance or became NPE after forbearance that present arrears 30 days past due while under probation
- For debtors classified as retail as per the EU Regulation 575/2013, when the Bank has on-balance sheet exposures to a debtor that are material and are past due by more than 90 days and the gross carrying amount of which represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, then all on and off-balance sheet exposures to that debtor shall be considered as NPE
- For debtors classified as non-retail as per the EU Regulation 575/2013, when the Bank has on-balance sheet exposures to a debtor classified as non-performing, then all on and off-balance sheet exposures to that debtor shall be considered as NPE

According to EU Regulation 575/2013 Article 178, reasonable materiality thresholds of credit obligations past due shall be defined by national competent authorities. The Central Bank of Cyprus ('CBC') has issued a Directive on Supervisory Reporting on Forbearance and Non-Performing Exposures of 2015 stating the following thresholds:

- For obligors of retail exposures, including exposures secured by mortgages of residential or commercial property, the higher of:
  a. A minimum limit of €500, i.e. if the amount in arrears of an obligor who has a retail exposure does not exceed €500, this exposure is not classified as defaulted exposure, or
  b. One loan instalment or an overdraft excess of 10% of the contractual limit, as applicable
- For other exposures, the higher of:
  a. A minimum limit of €1.000, i.e. if the total amount in arrears of the total exposure of an obligor does not exceed €1.000, this exposure is not classified as defaulted exposure, or
  b. The amount of arrears and excesses that in total exceed 10% of the total exposures to the obligor

13. Loans and advances to customers (continued)

In October 2017, the European Commission published a delegated regulation supplementing EU Regulation 575/2013 with regard to regulatory technical standards for the materiality threshold for credit obligations past due which states the following thresholds:

- Absolute threshold cannot be higher than €100 for retail exposures or €500 for non-retail exposures
- Relative thresholds to be set at the level of 1% for both retail and non-retail exposures
- If a national competent authority considers that the 1% materiality threshold does not reflect a reasonable level of risk, it may set a relative threshold at a different level which in any case must be lower than or equal to 2,5%

The European Central Bank ('ECB') has requested feedback from credit institutions regarding the above with a deadline for submission the 17th August 2018.

Forborne exposures

On 31 December 2018, no forborne exposures were held by the Bank in accordance with EBA's technical standards published in 2014.

According to the standards, forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties
- A total or partial refinancing of a troubled debt contract that would not have been granted had the debtor not been in financial difficulties.

Evidence of concession includes:

- A difference in favour of the debtor between the modified and the previous terms of the contract
- Cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the same institution.

Bank's policy for specific and collective loss allowance

The Bank reviews the collectability of its loans and advances to customers and assesses whether a loss allowance should be recorded in profit or loss. The procedure followed by the Bank for this exercise comprises of an individual assessment of the exposures for specific loss allowance and an assessment for collective loss allowance as per the Bank's provisioning policy.

The selection criteria for clients which are individually assessed for specific loss allowance are the following:

- To groups of connected persons which exceed 3% of the Bank's share capital and reserves and are not classified as Stage 1 exposures
- To shareholders with direct or indirect holdings in excess of 10% of the Bank's share capital and their connected persons
- To members of the Board of Directors and their connected persons
- Senior management of the Bank and their connected persons
- Facilities where evidence of impairment exists as outlined in Note 2.9.

13. Loans and advances to customers (continued)

For the exposures that are individually assessed for impairment, discounted cash flow calculations are performed. The amount of loss allowance is the difference between the exposure's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flows include any expected cash flows from the borrower's operations, any other sources of funds and the proceeds from liquidation of collateral where applicable.

Collective loss allowance

All exposures which are assessed on an individual basis but for which no impairment is recognised and all exposures not individually assessed are included in pools of exposures with similar credit characteristics and are assessed for collective loss allowance using the applicable Probability of Default and Loss Given Default rates that are set in the Bank's provisioning policy.

14. Financial assets at fair value through profit or loss

	2018	2017
Loans and advances	**€**	€
1 January	**-**	-
Additions	**20.000**	-
Fair value loss on revaluation	**(20.000)**	-
31 December	**-**	-

The addition of loans and advances during 2018 represents a single exposure which has been mandatorily classified at fair value through profit or loss as a result of failing the Solely Payment of Principal and Interest test ('SPPI') upon initial recognition in accordance with IFRS 9 provisions.

15. Investments at fair value through other comprehensive income and investments available-for-sale

	2018	2017
	€	€
Bonds		
Credit institutions	**1.794.209**	1.827.991
Non-financial corporations	**294.554**	304.284
	2.088.763	2.132.275
Loss allowance on investments at fair value through other comprehensive income (*Note 8*)	**(452)**	-
	2.088.311	2.132.275
Equity instruments measured at fair value through other comprehensive income		
Exchange-traded funds	**83.919**	80.468
	2.172.230	2.212.743
Listed in European stock exchanges	**2.088.311**	2.132.275
Listed in US stock exchanges	**83.919**	80.468
	2.172.230	2.212.743

The Bank has classified the exchange-traded funds held as at 31 December 2018 at FVOCI because it does not hold them for trading. The Bank has irrevocably elected to classify them at FVOCI.

15. Investments at fair value through other comprehensive income and investments available-for-sale (continued)

Geographical breakdown based on region / country of issuer

	2018	2017
	€	€
United States of America	**1.283.916**	1.300.880
European Union countries	**888.314**	911.863
	2.172.230	2.212.743

Prior to implementation of IFRS 9, investments at fair value through other comprehensive income had been classified as investments available-for-sale under IAS 39. As a result, comparative information represents investments available-for-sale.

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

All investments at fair value through other comprehensive income are classified as Level 1 for fair value disclosure purposes.

The weighted average total return on debt instruments at fair value through other comprehensive income held as at 31 December 2018 was -1.67% (2017: 1,00%) calculated on the portfolio's revaluation gain or loss and interest receivable during the year.

The weighted average total return on equity instruments at fair value through other comprehensive income held as at 31 December 2018 was 5,68% (2017: -0,21%) calculated on the portfolio's revaluation gain or loss and dividend receivable during the year.

16. Investments at amortised cost and investments held-to-maturity

	2018	2017
	€	€
Bonds		
Cyprus government	**1.750.600**	530.033
Other governments	**4.073.347**	1.337.394
Credit institutions	**3.681.910**	303.024
Other financial corporations	**2.438.200**	-
Non-financial corporations	**6.138.434**	2.059.319
	18.082.491	4.229.770
Loss allowance on investments at amortised cost (*Note 8*)	**(22.533)**	-
	18.059.958	4.229.770
Listed in Cyprus Stock Exchange	**1.745.709**	-
Listed in European stock exchanges	**16.314.249**	4.229.770
	18.059.958	4.229.770

16. Investments at amortised cost and investments held-to-maturity (continued)

Geographical breakdown based on region / country of issuer

	2018	2017
	€	€
Cyprus	**1.745.709**	530.033
European Union countries	**12.820.152**	3.396.713
Other countries	**3.494.097**	303.024
	18.059.958	4.229.770

Prior to implementation of IFRS 9, investments at amortised cost had been classified as investments held-to-maturity under IAS 39. As a result, comparative information represents investments held-to-maturity.

The fair value of investments at amortised cost as at 31 December 2018 was €18.106.411 (2017: €4.236.441), based on quoted market prices with the exception of short-term Treasury bills (i.e. with maturity less than 3 months) for which nominal value approximates fair value.

As a result, in accordance with the hierarchy followed for determining and disclosing fair value as mentioned in Note 15, all investments at amortised cost are classified as Level 1 for fair value disclosure purposes, with the exception of Treasury bills which are classified as Level 2. As at 31 December 2018, the fair value of Treasury bills was €1.751.742 (2017: €nil). The credit ratings applicable to investments at amortised cost as at 31 December 2018 and 2017 are presented in Note 30.

The weighted average acquisition yield on investments at amortised cost held as at 31 December 2018 was 0,33% (2017: 0,57%).

During 2018, the Bank disposed one bond at marginal gain, as, in the opinion of the management, the risk profile of the issuer was adversely impacted.

17. Other assets

	2018	2017
	€	€
Receivables from parent company (*Note 32*)	**108.066**	88.745
Deposits and prepayments	**611.913**	377.541
Other receivables	**1.516.307**	958.464
	2.236.286	1.424.750

Deposits and prepayments include an amount of €41.400 (2017: €130.800) relevant to premises lease agreements and related expenses.

Other receivables include an amount of €46.791 (2017: €92.891) that relates to receivables from suppliers in respect of VAT, which has already been remitted by the Bank to the VAT authorities during 2016. The remainder of ‘Other receivables’ mainly consist of cheques pending clearance and settlement accounts amounting to €1.309.599 (2017: €806.791).

18. Property and equipment

Year 2018	Land €	Freehold property €	Leasehold improvements €	Equipment €	Furniture and fittings €	Advances for premises €	Other tangible assets €	Total €
Cost								
1 January	-	-	2.149.661	1.057.632	543.359	2.131.071	-	**5.881.723**
Additions	-	833	760	160.747	-	1.980.041	21.707	**2.164.088**
Transfers to land and freehold	1.200.000	2.911.112	-	-	-	(4.111.112)	-	**-**
Transfers from depreciation	-	-	(157.512)	-	-	-	-	**(157.512)**
Transfers at net book value	-	483.841	(483.841)	-	-	-	-	**-**
31 December	**1.200.000**	**3.395.786**	**1.509.068**	**1.218.379**	**543.359**	**-**	**21.707**	**7.888.299**
Depreciation								
1 January	-	-	458.532	305.241	110.474	-	-	**874.247**
Charge for the year	-	59.422	178.646	200.813	54.335	-	-	**493.216**
Transfers against cost	-	-	(157.512)	-	-	-	-	**(157.512)**
31 December	**-**	**59.422**	**479.666**	**506.054**	**164.809**	**-**	**-**	**1.209.951**
Net Book Value	**1.200.000**	**3.336.364**	**1.029.402**	**712.325**	**378.550**	**-**	**21.707**	**6.678.348**

Year 2017	Land €	Freehold property €	Leasehold improvements €	Equipment €	Furniture and fittings €	Advances for premises €	Other tangible assets €	Total €
Cost								
1 January	-	-	2.147.824	877.013	531.771	-	-	3.556.608
Additions	-	-	1.837	180.619	11.588	2.131.071	-	2.325.115
31 December	-	-	2.149.661	1.057.632	543.359	2.131.071	-	5.881.723
Depreciation								
1 January	-	-	243.619	135.130	56.803	-	-	435.552
Charge for the year	-	-	214.913	170.111	53.671	-	-	438.695
31 December	-	-	458.532	305.241	110.474	-	-	874.247
Net Book Value	-	-	1.691.129	752.391	432.885	2.131.071	-	5.007.476

Advances for premises as at 1 January 2018 consisted of a down payment made on 20 December 2017 in relation to the acquisition of the Bank's business centre premises in Limassol which were under a leasehold agreement at the time. The premises were transferred to the ownership of the Bank on 29 May 2018 and any leasehold improvements until that date were transferred under freehold property at their net book value. Further details on the mentioned transaction are provided in Note 32.

The Bank has adopted the revaluation model under IAS 16 for owner-occupied property. At 31 December 2018, the net book amount of such property is not considered to materially differ from its fair value, as such no revaluation exercise has been undertaken.

19. Intangible assets

Year 2018	Computer software and licences €	Intangibles under development €	Total €
Cost			
1 January	2.210.864	16.993	**2.227.857**
Additions	525.631	20.816	**546.447**
Transfers	16.993	(16.993)	**-**
31 December	**2.753.488**	**20.816**	**2.774.304**
Amortisation			
1 January	1.341.711	-	**1.341.711**
Charge for the year	702.853	-	**702.853**
31 December	**2.044.564**	**-**	**2.044.564**
Net Book Value	**708.924**	**20.816**	**729.740**

Year 2017	Computer software and licences €	Intangibles under development €	Total €
Cost			
1 January	1.817.247	179.128	1.996.375
Additions	231.482	-	231.482
Transfers	162.135	(162.135)	-
31 December	2.210.864	16.993	2.227.857
Amortisation			
1 January	710.264	-	710.264
Charge for the year	631.447	-	631.447
31 December	1.341.711	-	1.341.711
Net Book Value	869.153	16.993	886.146

None of the intangibles under development are internally generated.

20. Customer deposits

	2018 €	2017 €
Current accounts	**84.084.137**	34.177.710
Savings accounts	**12.522.966**	2.344.889
Fixed term deposit accounts	**62.954.157**	23.087.343
	159.561.260	59.609.942

21. Other borrowings

	2018	2017
	€	€
1 January	**3.004.737**	-
Advancements	**2.500.000**	3.000.000
Interest charged (*Note 5*)	**26.316**	8.003
Repayments	**(179.369)**	(3.266)
31 December	**5.351.684**	3.004.737

On 16 May 2017, the Bank entered into a portfolio risk sharing loan agreement of €20 million with the European Investment Fund acting on behalf of the Cyprus Entrepreneurship Fund ('CYPEF'). CYPEF is a fund established by the Republic of Cyprus to implement a national scheme for facilitating access to finance and improving funding conditions for small and medium-sized enterprises (including self-employed entrepreneurs) active in Cyprus in collaboration with selected financial intermediaries.

In accordance with the terms of the agreement, CYPEF will contribute €10 million and the Bank an additional €10 million towards lending small and medium-sized enterprises ('SMEs') at lower interest rates than what would have been offered by the Bank in the absence of the agreement with CYPEF. The €10 million of CYPEF will be made available to the Bank in tranches to be decided by the Bank and subject to the satisfaction of certain covenants.

The commencement date of the agreement is considered to be the 1st of June 2017. The agreement carries a maximum maturity period of 15 years. The loan payable to CYPEF is charged with interest rate of 3-month Euribor + 1,00% and repayments of the loan are made quarterly depending on the amount of repayments made by SMEs with outstanding balances under the scheme. The agreement provides that the principal amount owed towards CYPEF will be reduced in case of a defaulted or restructured exposure under the scheme, subject to certain covenants.

22. Provisions and other liabilities

	2018	2017
	€	€
Social insurance and related taxes, defence tax and stamp duty payable	**136.401**	122.689
Accrued expenses	**416.296**	252.240
VAT payable	**15.110**	22.622
Loss allowance on financial guarantees and commitments	**93.310**	70.549
Other creditors and liabilities	**1.254.293**	1.180.372
	1.915.410	1.648.472

Other creditors and liabilities mainly consist of issued cheques pending clearance and settlement accounts.

Movement of loss allowance on financial guarantees and commitments

	2018	2017
	€	€
1 January	**70.549**	-
Loss allowance for the year (*Note 8*)	**22.761**	70.549
31 December	**93.310**	70.549

23. Share capital and share premium

	2018			2017		
	Number of shares	**Share capital €**	**Share premium €**	Number of shares	Share capital €	Share premium €
Authorised						
Ordinary shares of €1 each	**201.000**	**201.000**	-	201.000	201.000	-
Issued and fully paid						
1 January	**101.000**	**101.000**	**49.900.000**	101.000	101.000	49.900.000
31 December	**101.000**	**101.000**	**49.900.000**	101.000	101.000	49.900.000

Authorised capital

Under its Memorandum of Association, the Company fixed its authorised share capital at 1.000 ordinary shares of nominal value of €1 each.

On 15 December 2014, the Company increased its authorised capital to 201.000 ordinary shares of nominal value of €1 each.

Issued and fully paid capital

Upon incorporation on 20 August 2013, the Company issued to the subscribers of its Memorandum of Association 1.000 ordinary shares of €1 each at par.

On 15 December 2014, the Company issued 50.000 additional ordinary shares of €1 each, at a premium of €499 each.

On 29 December 2014, the Company issued 38.493 additional ordinary shares of €1 each, at a premium of €499 each.

On 24 July 2015, the Company issued 11.507 additional ordinary shares of €1 each, at a premium of €499 each.

As at 31 December 2018 and 2017, the Bank had a total issued share capital of 101.000 ordinary shares of nominal value of €1 each, at a total premium of €49.900.000.

24. Revaluation reserve

	2018	2017
Investments fair value reserve	**€**	€
1 January	**17.192**	(172)
Revaluation of equity instruments at fair value through other comprehensive income	**(657)**	-
Revaluation of debt instruments at fair value through other comprehensive income	**(39.584)**	-
Revaluation of investments available-for-sale	**-**	17.364
31 December	**(23.049)**	17.192

24. Revaluation reserve (continued)

The revaluation reserve represents the cumulative gains and losses arising on the revaluation of:

- Investments in equity instruments designated at fair value through other comprehensive income
- Investments in debt instruments classified at fair value through other comprehensive income, net of cumulative loss allowance recognized on these investments.

Investments in equity instruments designated at fair value through other comprehensive income are not subject to impairment and their cumulative fair value gain or loss included in the revaluation reserve is not subsequently reclassified to profit or loss.

25. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2018 and 2017, no dividends were paid nor declared to be paid since the Bank had accumulated losses.

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividends. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders at the end of the period of two years from the end of the period of assessment to which the profits refer are both Cyprus tax residents and domiciled. The deemed distribution provisions do not apply if the ultimate shareholders are either non-Cyprus tax residents or non-Cyprus domiciled. The amount of deemed dividend distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Bank for the account of the shareholders.

The Bank incurred losses in 2016 and, as a result, no special defence contribution in relation to deemed dividend distribution was payable in the current year.

26. Analysis of assets and liabilities by expected maturity

	2018			2017		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and balances with Central Bank	**45.422.223**	**-**	**45.422.223**	20.164.025	-	20.164.025
Placements with banks	**4.400.184**	**-**	**4.400.184**	2.615.172	-	2.615.172
Loans and advances to customers	**7.904.379**	**109.603.580**	**117.507.959**	4.270.917	59.007.303	63.278.220
Investments at fair value through other comprehensive income	**-**	**2.172.230**	**2.172.230**	-	-	-
Investments available-for-sale	**-**	**-**	**-**	-	2.212.743	2.212.743
Investments at amortised cost	**2.927.874**	**15.132.084**	**18.059.958**	-	-	-
Investments held-to-maturity	**-**	**-**	**-**	-	4.229.770	4.229.770
Other assets	**2.236.286**	**-**	**2.236.286**	1.424.749	-	1.424.749
Property and equipment	**-**	**6.678.348**	**6.678.348**	-	5.007.477	5.007.477
Intangible assets	**22.803**	**706.937**	**729.740**	415.509	470.637	886.146
	62.913.749	**134.293.179**	**197.206.928**	28.890.372	70.927.930	99.818.302
Liabilities						
Customer deposits	**62.954.157**	**96.607.103**	**159.561.260**	23.087.343	36.522.599	59.609.942
Other borrowings	**402.899**	**4.948.785**	**5.351.684**	67.162	2.937.575	3.004.737
Provisions and other liabilities	**1.822.100**	**93.310**	**1.915.410**	1.577.920	70.549	1.648.469
	65.179.156	**101.649.198**	**166.828.354**	24.732.425	39.530.723	64.263.148

The main assumptions used in determining the expected maturity of assets and liabilities are set out below:

- Loans and advances to customers are classified based on their expected repayment schedule. Overdraft accounts are classified in the over one year time band. Accumulated loss allowances on loans and advances are classified in the over one year time band based on the expected repayment schedule of loans and advances.
- Investments at fair value through other comprehensive income, investments available-for-sale, investments at amortised cost and investments held-to-maturity are classified in the relevant time band based on expectations as to their realisation. In most cases, this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one. Accumulated loss allowances on investments at fair value through other comprehensive income and investments at amortised cost are classified in the over one year time band.
- Customer deposits are classified based on contractual maturity date. Current and savings accounts are classified in the over one year time band.
- Other borrowings are classified based on their expected repayment schedule.
- Accumulated loss allowances on financial guarantees and commitments recognised under other liabilities are classified in the over one year time band based on their expected realisation or maturity.
- The expected maturity of all other assets and liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

27. Operating leases

Commitments under operating leases are as follows:

Software licences

	2018	2017
	€	€
Within one year	**54.383**	51.349
Between two and five years	**-**	51.349
	54.383	102.698

Properties

	2018	2017
	€	€
Within one year	**205.750**	332.300
Between two and five years	**876.650**	1.583.350
Over five years	**416.800**	1.187.850
	1.499.200	3.103.500

The Bank's commitments for lease of properties and software licences depend on the provisions of the relevant operating lease agreements. These agreements contain provisions for future adjustments on the lease payments and allow the renewal of the agreements upon expiry. Agreements in respect of software licences are non-cancellable, while agreements in respect of properties are cancellable upon notice.

28. Net cash flow from operating activities

	2018	2017
	€	€
Loss before tax	**(5.136.143)**	(5.668.173)
Adjustments:		
Depreciation and amortisation of property, equipment and intangible assets	**1.196.069**	1.070.142
Loss allowance	**190.208**	312.568
Fair value loss on revaluation of financial assets	**20.000**	-
Gain on disposal of financial instruments	**(12.783)**	-
Net foreign exchange gains / (losses)	**(25.818)**	7.847
Amortisation of premiums / discounts on debt securities	**(58.951)**	(2.411)
	(3.827.418)	(4.280.027)
Increase in operating assets:		
Obligatory balances held with the Central Bank	**(1.032.777)**	(203.080)
Loans and advances to customers	**(54.374.201)**	(38.920.404)
Other assets	**(811.536)**	(226.832)
	(60.045.932)	(43.630.343)
Increase / (decrease) in operating liabilities:		
Customer deposits	**99.951.318**	22.088.107
Other borrowings	**2.346.947**	3.004.737
Provisions and other liabilities	**(55.823)**	984.222
Net cash flow from / (used in) from operating activities	**42.196.510**	(17.553.277)

29. Cash and cash equivalents

	2018	2017
	€	€
Cash and non-obligatory balances with the Central Bank (*Note 11*)	**43.929.130**	19.703.709
Placements with banks (*Note 12*)	**4.400.184**	2.615.172
	48.329.314	22.318.881

At 31 December 2018, placements with the Central Bank amounted to €41.311.317 (2017: €16.769.645).

30. Risk management

In the ordinary course of the business, the Bank is exposed to various risks, which are managed and monitored through a continuous process of identification, measurement, and monitoring to prevent undue risk concentrations. The risk management policies employed by the Bank to manage these risks are discussed below.

Credit risk

Credit risk is the risk created primarily from credit facilities, trading and treasury management if one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

30. Risk management (continued)

The Risk Management department has the responsibility to identify, evaluate and assess the credit risk of the Bank and the responsibility to make proposals on the management of and controls on credit risk through various mechanisms on the basis of the strategic goals as determined by the Board of Directors. It recommends establishing and developing credit policies and procedures based on European and local directives and adjusts internal policies and procedures as appropriate.

The Risk Management department sets the procedure for granting of credit facilities to customers of the Bank according to the Bank's Risk Appetite Statement and Credit Risk Policy as set by the Board of Directors. Additionally, the Risk Management department sets limits and principles of financing and assesses the new banking products and new banking activities of the Bank.

The approval process of credit facilities aims in minimising credit risk by evaluating the creditworthiness of the counterparty, the collateral offered and the type of credit facility. Emphasis is given on the customer's repayment ability and any collaterals assigned act as a fall-back position in times of financial difficulties. Credit risks from connected customer accounts are consolidated and monitored on a single customer group basis.

Credit Granting and Review Processes

In March 2016, the Central Bank of Cyprus ('CBC') issued a Directive on Credit Granting and Review Processes, with certain amendments implemented in September 2016. The provisions of this Directive are applicable to all Authorised Credit Institutions ('ACIs') and credit institutions that operate in the Republic of Cyprus under Section 10A of the Business of Credit Institutions Laws of 1997 to 2013.

The basic principle when assessing or reviewing a loan is that the value of collateral is not a decisive factor in the ACI's assessment of a loan application. Collateral could only serve as a secondary source of repayment, and as such it shall be assessed.

The decisive / overriding criterion for granting a credit facility is the borrower's ability to repay the credit facility within the approved time limit. It is noted that when assessing the borrower's repayment ability, any recourse to collateral or to guarantors' income shall not be taken into account.

Monitoring of the lending portfolio

The Bank's portfolio is continuously monitored in order to avoid undertaking high risks when granting credit facilities and in their subsequent duration. When granting loans and advances to customers, the Bank uses an internal evaluation and rating system, so as the customer's rating is representative of the credit risk involved.

The Bank's policy regarding the identification of impaired loans and advances and the methodology employed to determining any loss allowance is set out in Note 2.

The Bank prepares all reports relating to the control of credit risk at fixed intervals. The Risk Management department communicates credit risk issues to the Board of Directors through its Risk Committee on a quarterly basis. Standardised reports to the Regulatory & Banking Supervision Department of the CBC are sent on a monthly and quarterly basis according to each report's requirements.

Arrears Management Process

In April of 2015, the CBC issued the Directive on Arrears Management and the Code of Conduct on the Handling of Borrowers in Financial Difficulties (the 'Code'), which set out the framework that all banks must use when dealing with customers in excesses/arrears or in pre-arrears. It requires ACIs to handle all such cases with the ultimate objective of reinstating, where possible, the sustainable ability of borrowers to meet their credit obligations.

30. Risk management (continued)

The Code is intended to support and facilitate a meaningful interaction between ACIs and eligible borrowers, with the ultimate goal of achieving a fair and sustainable restructuring, where possible. The code of conduct applies to all borrowers, physical and legal persons, and for any kind of borrowing and the framework on arrears aims to support and find solution for the Bank's customers who are in arrears, or are at risk of going into arrears. To this effect, the Code clearly outlines, inter alia, the responsibilities of the ACIs in the arrears management process. It, also, makes a clear distinction between cooperative and non-cooperative borrowers with the focus on a consensual and voluntary restructuring.

According to the Directive on Arrears Management, ACIs shall lay down effective processes and mechanisms in order to enable timely reaction in the event that the restructuring conditions and / or milestones are not being met and / or the financial situation of the borrower has materially changed. ACIs shall cascade the processes including legal and other measures to be undertaken for cases where sustainable viability cannot be achieved or the borrower is no longer cooperating.

A "borrower in financial difficulties" means a borrower whose financial position has deteriorated to an extent that he / she is or may in the foreseeable future be unable to service his / her credit facilities, in accordance with the contractual repayment program. A borrower is defined as "non-cooperative" when a warning letter has been sent to the borrower and the borrower did not carry out the actions specified in that letter and any of the following conditions apply:

- the borrower does not fully and honestly disclose to the Bank relevant and material information that would have a significant impact on the assessment of the borrower's repayment ability, or
- the borrower does not provide the relevant information and / or documentation as requested by the Bank for the assessment of the financial position of the borrower, within a determined by the Bank time limit, or
- the duration of the contact between the Bank and borrower after the first communication of the Bank on its decision for a proposed solution or solutions exceeds the 14-day time limit due to the borrower's culpability, or
- 90 days elapse:
    a. where the borrower has failed to meet his / her contractual payments in full and has not entered into a workout arrangement, or
    b. where the borrower does not contact or does not respond to contacts and notifications initiated by the Bank, or the borrower does not take collaborative steps with the credit institution to develop a restructuring plan.

The effective management of arrears of viable borrowers in financial difficulties is an essential component of the credit institution's risk management, particularly in a distressed environment. The objective of arrears management is to reduce credit risk and avoid further deterioration of the financial position of the borrower, with the ultimate objective of reinstating, where possible, the sustainable ability of borrowers to meet their credit obligations.

The Risk Management department has the responsibility of ensuring that appropriate skills and systems are in place for the effective management of credit facilities in arrears and the conduct of feasible and sustainable debt restructuring in accordance with the European Commission's Implementing Regulation 2015/227.

30. Risk management (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held, as well as any other credit enhancements.

	2018	2017
	€	€
Balances with the Central Bank (*Note 11*)	**41.311.317**	16.769.645
Placements with banks (*Note 12*)	**4.400.184**	2.615.172
Loans and advances to customers, net of loss allowance (*Note 13*)	**117.507.959**	63.278.220
Debt investments at fair value through other comprehensive income, net of loss allowance (*Note 15*)	**2.088.311**	-
Investments available-for-sale (*Note 15*)	**-**	2.132.275
Investments at amortised cost, net of loss allowance (*Note 16*)	**18.059.958**	-
Investments held-to-maturity (*Note 16*)	**-**	4.229.770
Other assets (*Note 17*)	**2.236.286**	1.424.750
Total on statement of financial position	**185.604.015**	90.449.832
Undisbursed loan facilities	**17.329.824**	12.655.496
Undrawn overdraft facilities	**5.554.352**	3.828.611
Letters of guarantee	**5.243.267**	1.858.333
Unutilised trade finance limits	**637.870**	2.338.460
Total off-balance sheet position (*Note 34)*	**28.765.313**	20.680.900
Loss allowance on financial guarantees and commitments (*Note 22*)	**(93.310)**	(70.549)
Off-balance sheet position, net of loss allowance	**28.672.003**	20.610.351
Total credit exposure	**214.276.018**	111.060.183

Credit risk concentration

According to the EU Regulation 575/2013, a large exposure is defined as the Bank's exposure to a client or group of connected clients which is equal or exceeds 10% of eligible capital. The Bank should not incur exposures the value of which exceeds 25% of the Bank's eligible capital, after taking into account the effect of credit risk mitigation.

The Bank has not provided any credit facilities to Board of Directors and their connected persons or shareholders with direct or indirect ownership of more than 10% of the Bank and their connected persons for the reported financial year, apart from negligible amounts provided to key management personnel.

As eligible capital will be gradually allocated towards the Bank's operations as required, the Bank monitors allocations so that regulatory limits are not breached.

Collateral and other credit enhancements

As at 31 December 2018, the main types of collateral obtained by the Bank consisted of property mortgages, cash, motor vehicles, as well as, life insurance policies, fixed and floating charges, assigned receivables and contracts of sale. During 2018, there have been no significant changes in the quality of collaterals obtained.

As at 31 December 2018, there was a limited number of loan facilities granted to customers collateralized by cash for a total amount of approximately €25.000 against which there was no loss allowance recognised.

30. Risk management (continued)

Loss allowance movement and stage classification per financial asset type

Loans and advances to customers

	2018			
Gross value	**Stage 1 €**	**Stage 2 €**	**Stage 3 €**	**Total €**
Retail	78.671.942	936.882	2.648	**79.611.472**
Business	37.208.143	1.139.911	1.494	**38.349.548**
	115.880.085	**2.076.793**	**4.142**	**117.961.020**
Loss allowance				
Retail	169.307	25.676	888	**195.871**
Business	214.324	42.866	-	**257.190**
	383.631	**68.542**	**888**	**453.061**

The criteria met for the loan facilities classified as Stage 2 as at 31 December 2018 were:

- Up to 30 days past due - €19.957
- Significant increase in credit risk / above risk of default threshold (Note 2.9) - €2.056.836

	2018			
Loss allowance	**Stage 1 €**	**Stage 2 €**	**Stage 3 €**	**Total €**
As at 1 January 2018 under IFRS 9	278.046	46.188	-	**324.234**
New assets originated or purchased	202.158	-	-	**202.158**
Transfers to Stage 1	275	(275)	-	**-**
Transfers to Stage 2	(43.859)	43.859	-	**-**
Transfers to Stage 3	(888)	-	888	**-**
Changes to models and inputs used for ECL calculations	(49.604)	(16.454)	-	**(66.058)**
Assets derecognised or repaid	(2.497)	(4.776)	-	**(7.273)**
As at 31 December	**383.631**	**68.542**	**888**	**453.061**
Individually assessed	-	-	888	**888**
Collectively assessed	383.631	68.542	-	**452.173**
	383.631	**68.542**	**888**	**453.061**

30. Risk management (continued)

Investments at fair value through other comprehensive income

	2018	
	Stage 1	**Total**
Gross value	**€**	**€**
Bonds	**2.088.763**	**2.088.763**
Loss allowance		
Bonds	**452**	**452**

	2018	
	Stage 1	**Total**
Loss allowance	**€**	**€**
As at 1 January 2018 under IFRS 9	198	**198**
New assets originated or purchased	254	**254**
As at 31 December	**452**	**452**
Individually assessed	**452**	**452**

Investments at amortised cost

	2018	
	Stage 1	**Total**
Gross value	**€**	**€**
Bonds	**18.082.491**	**18.082.491**
Loss allowance		
Bonds	**22.533**	**22.533**

	2018	
	Stage 1	**Total**
Loss allowance	**€**	**€**
As at 1 January 2018 under IFRS 9	15.111	**15.111**
New assets originated or purchased	17.367	**17.367**
Assets derecognised or repaid	(9.945)	**(9.945)**
As at 31 December	**22.533**	**22.533**
Individually assessed	**22.533**	**22.533**

30. Risk management (continued)

Financial guarantees and commitments

	2018		
Gross exposure	**Stage 1 €**	**Stage 2 €**	**Total €**
Letters of guarantee	5.238.267	5.000	**5.243.267**
Unutilised trade finance limits	637.870	-	**637.870**
Undisbursed loan facilities	15.829.824	1.500.000	**17.329.824**
Unutilised overdrafts	5.225.432	328.920	**5.554.352**
	26.931.393	**1.833.920**	**28.765.313**
Loss allowance			
Letters of guarantee	15.799	20	**15.819**
Unutilised trade finance limits	6.386	-	**6.386**
Undisbursed loan facilities	19.567	35.216	**54.783**
Unutilised overdrafts	11.311	5.011	**16.322**
	53.063	**40.247**	**93.310**

	2018		
Loss allowance	**Stage 1 €**	**Stage 2 €**	**Total €**
As at 1 January 2018 under IFRS 9	40.614	1.763	**42.377**
New assets originated or purchased	70.823	-	**70.823**
Transfers to Stage 1	17	(17)	**-**
Transfers to Stage 2	(40.056)	40.056	**-**
Changes to models and inputs used for ECL calculations	(16.684)	3.656	**(13.028)**
Assets derecognised or repaid	(1.651)	(5.211)	**(6.862)**
As at 31 December	**53.063**	**40.247**	**93.310**
Individually assessed	-	36.643	**36.643**
Collectively assessed	53.063	3.604	**56.667**
	53.063	**40.247**	**93.310**

30. Risk management (continued)

Credit quality of loans and advances to customers

	2018	2017
	€	€
Neither past due nor impaired	**117.913.251**	63.253.591
Past due but not impaired:		
- Up to 30 days	**19.957**	323.904
- 31 to 60 days	**11.636**	-
- 61 to 90 days	**12.034**	9.324
Impaired	**4.142**	-
	117.961.020	63.586.819
Loss allowance on loans and advances to customers (*Note 13*)	**(453.061)**	(308.599)
	117.507.959	63.278.220

The credit quality of performing loans and advances to customers that were neither past due nor impaired is managed by the Bank using internal credit ratings.

The Bank has internally developed two credit rating systems, one for individuals and one for businesses. Both systems use qualitative (e.g. occupation, industry, etc.) and quantitative (e.g. days in arrears, length of credit history, etc.) information to calculate a score ranging from 1 to 10. The Bank uses five credit rating bands with Band 1 indicating a very low credit risk profile while Band 5 a very high risk profile for both individuals and businesses.

The Bank recognises the inherent limitations of the internal credit rating system due to its limited operational history. Thus, the Bank will continuously monitor the performance of the credit rating model along with actual performance of borrowers in order to continuously improve the model as new information becomes available.

The Bank uses a logistic model in order to translate the internally developed credit ratings to 12-month probabilities of default. For lifetime probabilities of default, the Bank also uses a logistic model, taking into account the 12-month probability of default as well as specific macroeconomic factors these being GDP, unemployment and property price index as issued by the CBC. Where available, the Bank uses forecasts from reputable public and independent sources. For longer periods, extrapolation is used under the assumption of cyclicality. Three distinct scenarios are used for macroeconomic factors, optimistic, neutral and pessimistic, all of equal weighting. Adjustments in weighting might be present on a case-by-case basis for individually assessed exposures.

30. Risk management (continued)

Neither past due nor impaired loans and advances to customers

The table below shows the credit quality of performing loans and advances to customers that were neither past due nor impaired based on the Bank's credit rating system.

	2018	2017
	€	€
Band 1	**50.197.771**	6.579.665
Band 2	**57.964.450**	31.510.668
Band 3	**9.625.269**	24.084.776
Band 4	**122.730**	1.078.482
Band 5	**3.031**	-
	117.913.251	63.253.591
Loss allowance on loans and advances to customers	**(447.239)**	(306.734)
	117.466.012	62.946.857

Past due but not impaired loans and advances to customers

The table below shows the credit quality of performing loans and advances to customers that were past due but not impaired based on the Bank's credit rating system.

	2018	2017
	€	€
Band 1	**6.265**	85.212
Band 2	**15.261**	229.184
Band 3	**22.101**	18.832
	43.627	333.228
Loss allowance on loans and advances to customers	**(4.934)**	(1.865)
	38.693	331.363

Facilities shown as past due but not impaired as at 31 December 2018 represent 18 loan facilities with actual arrears amount of €19.143 and 97 current accounts with excess amount of €968 (2017: 9 facilities with actual arrears amount of €5.426).

Impaired loans and advances to customers

The table below shows the credit quality of non-performing loans and advances to customers that were considered impaired based on the Bank's credit rating system. The amount refers to 87 current accounts in excess, which have been classified as impaired based on days past due.

	2018	2017
	€	€
Band 5	**4.142**	-
Loss allowance on loans and advances to customers	**(888)**	-
	3.254	-

30. Risk management (continued)

Collateral on performing loans and advances

The fair value of collateral held by the Bank in respect of performing loans and advances to customers as at 31 December 2018 amounted to €327.311.074 (2017: €167.335.766).

Credit ratings from independent rating agencies

Balances with the CBC and placements with banks are analysed in accordance with Standard & Poor's ('S&P') rating agency as follows:

	2018	2017
	€	€
AAA to BBB-	**45.711.501**	19.384.817

Bonds and other investments portfolios are analysed in accordance to S&P rating agency as follows:

	2018	2017
	€	€
AAA to BBB-	**20.148.269**	6.362.045
Issued by:		
Cyprus government	**1.745.709**	530.033
Other governments	**4.064.336**	1.337.394
Credit institutions	**5.475.534**	-
Financial corporations	**2.434.878**	2.131.015
Non-financial corporations	**6.427.812**	2.363.603
	20.148.269	6.362.045
Classified as:		
Investments at fair value through other comprehensive income	**2.088.311**	-
Investments available-for-sale	**-**	2.132.275
Investments at amortised cost	**18.059.958**	-
Investments held-to-maturity	**-**	4.229.770
	20.148.269	6.362.045

Interest rate risk

Interest rate risk is the risk that (i) the fair value of future cash flows of a financial instrument ('fair value interest rate risk') and (ii) the actual future cash flows of a financial instrument will fluctuate ('cash flow interest rate risk') because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing interest rates of assets and liabilities.

Interest rate risk is measured, monitored and controlled using interest rate sensitivity gap analysis estimating the difference between assets and liabilities for which interest rates are repriced in each time band, separately for each currency. This difference is multiplied by the respective assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to estimate the impact on annual revenues of any changes in interest rates for the next twelve months for each currency.

The Bank is primarily exposed to cash flow interest rate risk since the majority of its interest-bearing financial instruments are variable.

30. Risk management (continued)

Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Bank's investments at fair value through other comprehensive income (2017: available-for-sale financial assets) are susceptible to market price risk arising from uncertainties about future prices of the investments (refer to Note 15 for such investments exposed to market price risk).

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Bank's measurement currency. The Bank is exposed to foreign exchange risk arising from various currency exposures. Exchange rate fluctuations are managed by the Bank's Treasury department and monitored by the Risk Management department. The Bank's foreign exchange exposure is communicated to senior management on a monthly basis and to the Board of Directors through its Risk Committee on a quarterly basis.

There are no materially open positions in any foreign currency, and consequently the impact on net loss and equity of reasonably possible changes in exchange rates is not expected to be significant.

Liquidity risk

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

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The Bank has developed monitoring tools for treasury operations in order to manage, amongst others, liquidity risk and cash flows and will continue to improve such tools as its operations become more complex. In addition, the Bank has set a limit structure for treasury placements that promotes diversity of exposures and to assist in monitoring the Bank's risk profile against its risk appetite.

The Bank`s Treasury department is responsible for managing liquidity and to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. The Asset and Liability Committee reviews the liquidity position on a monthly basis and takes the necessary actions to enhance the Bank's liquidity position.

Monitoring Process

Treasury monitors cash flows and highly liquid assets on a daily basis, in addition to the supervisory liquidity ratios, to ensure the uninterrupted operation of the Bank's activities. The Bank`s Treasury department submits a report to the CBC on a daily basis indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash (banknote balances, nostro balances and any overnight money market balances). Moreover, the Treasury department prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC.

Main Refinancing Operations

For prudency and in order to have access to various liquidity sources, the Bank maintains an available credit line with CBC under the relevant Main Refinancing Operations framework. The amount of the credit line available to the Bank is linked / dependent to the value of assets declared by the Bank for such purpose. The Bank has declared assets with a nominal value of €1.800.000 as at 31 December 2018 (2017: €2.100.000), which will enable it, upon request, access to such facilities in line with the provisions of the aforementioned scheme.

As the credit line has not been utilised by 31 December 2018, such assets are not considered encumbered in any manner.

30. Risk management (continued)

Liquidity ratios

The Bank calculates the Liquidity Coverage Ratio ('LCR') based on the Delegated Regulation (EU) 2015/61 and submits it to the CBC on a monthly basis. The LCR is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress scenario lasting for 30 calendar days. During 2018 the minimum requirement was 100% (2017: 80%).

The LCR ratio was as follows:

	2018 **%**	2017 %
End of the reporting period	**762,88**	387,97
Average for the year	**808,16**	350,14
Maximum ratio for the year	**1.272,59**	507,33
Minimum ratio for the year	**584,30**	272,31

As at 31 December 2018, the Bank was in compliance with the above regulatory liquidity requirements.

The local prudential liquidity requirements in Euro and other currencies were abolished on 1 January 2018 as per Article 412(5) of EU Regulation No 575/2013. To this purpose, in December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR and which was effective for the period 1 January until 31 December 2018. Despite the abolishment, the Bank continued to submit prudential liquidity data to CBC for informational purposes until March 2018. From April 2018 onwards a weekly liquidity position is submitted to CBC.

The objective of the measure was to ensure that there would be a gradual release of excess liquidity arising from the shift to a single liquidity requirement framework. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR than the ones defined in the Commission Delegated Regulation (EU) 2015/61, as well as, additional liquidity requirements in the form of outflow rates on other items that are not subject to any outflow rates as per the relevant Regulation.

The measure was implemented in two stages. The first stage required stricter outflow and inflow rates which were applicable from 1 January 2018 until 30 June 2018. The second stage, applicable from 1 July 2018 until 31 December 2018, required more relaxed outflow and inflow rates compared to the initial ones through the reduction of 50% of the LCR add-on rates. As at 31 December 2018, the Bank was in compliance with the LCR add-on implemented on 1 January 2018.

Additionally to the LCR, the Bank calculates and submits to CBC the Net Stable Funding Ratio ('NSFR') on a quarterly basis. NSFR, defined as the ratio of available stable funding relative to required stable funding, is not yet introduced as a regulatory requirement. The minimum requirement of NSFR will be 100%. At 31 December 2018 the Bank's NSFR was at 168% (2017: 159%).

30. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturity

	Carrying amount	Contractual cash flows	On demand and up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€	€	€	€	€	€	€
Year 2018							
Customer deposits	159.561.260	159.655.892	108.789.041	14.800.474	36.066.377	-	-
Other borrowings	5.351.684	5.499.436	103.861	-	325.901	1.712.537	3.357.137
Provisions and other liabilities	1.915.410	1.915.410	1.209.669	69.146	300.025	93.310	243.260
	166.828.354	**167.070.738**	**110.102.571**	**14.869.620**	**36.692.303**	**1.805.847**	**3.600.397**
Year 2017							
Customer deposits	59.609.942	59.734.447	37.471.498	3.988.738	18.274.211	-	-
Other borrowings	3.004.737	3.236.461	10.410	-	71.836	378.478	2.775.737
Provisions and other liabilities	1.648.469	1.648.469	1.455.751	24.733	58.212	-	109.773
	64.263.148	64.619.377	38.937.659	4.013.471	18.404.259	378.478	2.885.510

The table above presents the Bank's financial liabilities based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date. Repayments for which notice should be given, have been placed in the relevant time bands, as if notice had been given on 31 December. The amounts in this table may not be equal to the amounts in the statement of financial position since the table above presents all cash flows (including interest) on an undiscounted basis.

Analysis of contingent liabilities and commitments by remaining contractual maturity

	Contractual cash flows €	On demand and up to 1 month €	Between 1 and 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €
Year 2018						
Letters of guarantee	5.243.267	329.249	658.034	3.081.516	1.105.190	69.278
Unutilised trade finance limits	637.870	-	-	637.870	-	-
Undisbursed loan facilities	17.329.824	-	1.219.583	1.901.618	14.208.623	-
Undrawn overdraft facilities	5.554.352	5.554.352	-	-	-	-
	28.765.313	**5.883.601**	**1.877.617**	**5.621.004**	**15.313.813**	**69.278**
Year 2017						
Letters of guarantee	1.858.333	109.000	105.219	364.680	1.206.456	72.978
Unutilised trade finance limits	2.338.460	-	-	-	2.338.460	-
Undisbursed loan facilities	12.655.496	-	-	1.294.698	11.360.798	-
Undrawn overdraft facilities	3.828.611	3.828.611	-	-	-	-
	20.680.900	3.937.611	105.219	1.659.378	14.905.714	72.978

30. Risk management (continued)

The table above presents the Bank's contingent liabilities and commitments to lend based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date or the date assumed to materialise into a liability for the Bank to pay. The main assumptions used in determining the appropriate time band for classification are set out below:

- Letters of guarantee are classified based on their contractual maturity date.
- Unutilised trade finance limits do not carry a contractual maturity date and are classified based on the date which the Bank intends to perform a review of the respective facilities.
- Undisbursed loan facilities are classified based on the maximum allowable period for the customer to withdraw the remaining balance in accordance with the contractual terms of the facility. The allowable period does not exceed 2 years. The Bank reserves the right to cancel any remaining balance after the elapsing of the allowable period by giving relevant notice to the customers.
- Undrawn overdraft facilities are classified as on demand given that there are no restrictions in respect of their utilisation.

Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, conduct and reputational risk.

Regulatory risk

The Bank's operations are supervised by the CBC and the European Central Bank ('ECB') as a supervisory body for all the banks in the Eurozone area (referred to as the Single Supervisory Mechanism, or SSM). The ECB exercises its supervisory responsibilities in cooperation with the national central banks. Future changes in the legal or regulatory obligations as a result of arrangements made by either ECB or CBC, may impact the Bank's operations.

Intensity of competition

The operational environment of the Bank is highly competitive. Competition arises from commercial banks, cooperative credit institutions and international banking units. Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Bank, may create pressure on the Bank's profitability.

Litigation risk

Litigation risk is the risk of financial loss, interruption of the Bank's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Bank to execute its operations.

Political and other risks

External factors which are beyond the control of the Bank, such as political developments and government actions (i.e. the ongoing unresolved political issue in Cyprus, political and social unrest or military conflict in neighbouring countries) may adversely affect the operations of the Bank, its strategy and prospects. Furthermore, the general economic environment prevailing in Cyprus and internationally may affect the Bank's operations to a great extent. Economic conditions such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Bank.

Given the above, the Bank recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which may result in a negative impact on Bank's activities, operating results and position.

31. Capital management

The main regulator that sets and monitors capital requirements for the Bank is the Central Bank of Cyprus (‘CBC’).

As from 1 January 2014, the new Basel III Framework known as Capital Requirement Regulation (‘CRR’) 575/2013 / Capital Requirement Directive IV (‘CRD IV’) dated 26 June 2013 became effective. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.

In November 2016, the European Commission published its first proposals for revised rules to calibrate capital and liquidity requirements, in the form of a Directive and a Regulation known as CRD V and CRR II, as well as amendments to the Bank Recovery and Resolution Directive, to implement global standards for total loss absorbing capital.

Basel III Framework comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – Internal capital and liquidity assessment and supervisory review process
- Pillar 3 – Market discipline

Pillar 1 – Minimum capital requirements

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Bank uses the Standardised Approach for the calculation of minimum capital requirements against credit risk and the financial collateral simple method for credit risk mitigation purposes. The Simplified Approach is used for the calculation of own fund requirements for commodity risk for each commodity exposure category. The Bank adopts the Basic Indicator Approach for the calculation of capital regarding operational risk.

Pillar 2 – Supervisory review process

Pillar 2 aims to enhance the link between an institution’s risk profile, its risk management and risk mitigation systems, and its capital planning. The process can be divided into two major components:

- An internal assessment by the institution on internal governance, risk management, stress testing frameworks, business model and strategy, known as Internal Capital and Liquidity Adequacy Assessment Process (‘ICAAP / ILAAP’)
- A supervisory review and evaluation process (‘SREP’), of which its key purpose is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms, as well as capital and liquidity to ensure a sound management and coverage of their risks to which they are or might be exposed to. This includes risks arising from stress testing exercises and risks an institution may pose to the financial system.

The Bank has prepared and submitted its ICAAP / ILAAP report for the year 2018 in April 2019. The Bank has also received its first SREP requirement in January 2019 which has been set at 4,5%, raising the Total Capital Ratio requirement to 15% without Pillar 2 Capital Guidance and to 15,5% with Pillar 2 Capital Guidance.

31. Capital management (continued)

Pillar 3 – Market discipline

Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on EU Regulation 575/2013, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders.

Pillar 3 disclosures are published on the Bank's website in conjunction with the financial statements.

Capital position as per CRR / CRD IV

At 31 December 2018, the Bank fully meets the minimum capital requirements.

The information presented below represents the Bank's capital position under CRR / CRD IV, including the application of the transitional arrangements as set by the CBC.

	31 December 2018 €	31 December 2017 €
Common Equity Tier 1 capital	**29.661.671**	34.790.122
Additional Tier 1 capital	**-**	-
Tier 1 capital	**29.661.671**	34.790.122
Tier 2 capital	**-**	-
Total Regulatory Capital	**29.661.671**	34.790.122
Risk weighted assets - credit risk	**76.948.187**	41.010.469
Risk weighted assets - operational risk	**1.793.812**	933.789
Risk weighted assets - market risk	**-**	-
Total Risk Weighted Assets	**78.741.999**	41.944.258
Common Equity Tier 1 ratio	**37,67%**	82,94%
Tier 1 ratio	**37,67%**	82,94%
Total capital ratio	**37,67%**	82,94%
Minimum Ratios as per the CRR / CRD IV		
Common Equity Tier 1 ratio	**6,375%**	5,75%
Tier 1 ratio	**7,875%**	7,25%
Total capital ratio	**9,875%**	9,25%

31. Capital management (continued)

Following the enactment of the amendments in the Cypriot Banking Law in February 2017 regarding the gradual phase-in of the Capital Conservation Buffer (CCB), the CCB as of 1 January 2018 was 1,875% (1 January 2017: 1,25%). As a result, the Bank's minimum Common Equity Tier 1 ('CET1') ratio including CCB phase-in arrangements was 6,375% in 2018 (2017: 5,75%) and the overall Total Capital Ratio including CCB phase-in arrangements was 9,875% in 2018 (2017: 9,25%).

In accordance with the phase-in arrangements of CCB, the CET1 ratio will reach 7,0% as of 1 January 2019, resulting in a Total Capital Ratio of 10,5% including CCB on a fully loaded basis.

Taking into consideration the recently received SREP requirement, the Total Capital Ratio requirement as of 1 January 2019 is set at 15% without Pillar 2 Capital Guidance and at 15,5% with Pillar 2 Capital Guidance.

The Board of Directors is intensifying its efforts to develop the operations of the Bank in a manner consistent with the expectations of its stakeholders and regulators. As part of these efforts, amongst others, it has approved the revised 5-year business plan which will allow the Bank to fulfil its business objectives and become profitable. The revised business plan will enable the Bank to substantially increase its operations during this period and requires a share capital increase, for which the major shareholder of the parent company, Ancoria Investments Plc, has already committed to participate.

32. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The Bank's complete accounting policy regarding these matters is presented in Note 2.16.

The Bank is a subsidiary of Ancoria Investments Plc, which is incorporated in Cyprus and holds 100% of the Bank's issued share capital. Ancoria Investments Plc is owned by several legal entities as well as natural persons, and has no other significant activity, assets or liabilities other than its holding in the Bank.

The shareholders of Ancoria Investments Plc as at the date of signing of these financial statements and as at 31 December 2018 and 2017 are listed below:

Name / relationship	**Percentage of Share Capital in the parent company**	
	Date of signing this report and 31 December 2018	31 December 2017
	%	%
Bo Sievert Larsson	41,00	41,00
Ancoria Insurance Ltd	20,00	20,00
Sievert Larsson Scholarship Foundation	19,18	19,18
Other shareholders	19,82	19,82
	100,00	100,00

32. Related party transactions (continued)

Participation of directors in the Company's share capital

The percentage of share capital of the Bank held indirectly by each member of the Board of Directors (through ownership interest in the immediate parent company) and their connected persons, as at 31 December 2018 and 31 December 2017 were as follows:

Name	**31 December 2018 %**	31 December 2017 %
Ioannis Loizou	3,40	3,40
Evgenia Christodoulou	0,08	0,08
Bo Sievert Larsson	41,00	41,00
Charidemos Theocharides	0,23	0,23
Charalambos Panayiotou	0,36	0,00

Connected persons include (i) spouses, (ii) minor children and (iii) companies in which company directors / other key management personnel hold, directly or indirectly, at least 20% of the voting power at a general meeting, or act as executive director or exercise control over the entities, in any manner.

Further to the above shareholdings, the Sievert Larsson Scholarship Foundation, founded by Mr. Bo Sievert Larsson, indirectly holds 38,6% (2017: 38,6%) of the Company's issued share capital.

	2018 €	2017 €
Deposits		
Members of the Board of Directors and key management personnel	**732.386**	1.409.483
Parent company	**24.097**	40.954
Entity with significant influence	**6.811**	17.977
Other related parties	**3.174.573**	3.097.933
	3.937.867	4.566.347
Interest expense	**10.067**	26.541

	2018 €	2017 €
Loans and advances		
Other related parties	**64.053**	28
Interest income	**1.422**	31

The above table does not include balances for members of the Board of Directors and their connected persons who resigned during the year. Interest income and expense is disclosed for the period during which they were members of the Board of Directors.

The amount of deposits placed by other related parties includes deposits from Ancoria Insurance Public Ltd (indirect shareholder) in the amount of €1.434.468 (2017: €759.007), as well as, deposits by members of the Board of Directors of Ancoria Insurance Public Ltd.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of guarantees and commitments to lend amounting to €20.850 (2017: €21.000).

32. Related party transactions (continued)

During 2018, the Bank recognised a total income amounting to €16.560 (2017: €16.560) as a result of a use of space agreement with Ancoria Insurance Public Ltd. This amount is shown under 'Other income' line.

All transactions with non-executive members of the Board of Directors, the Bank's shareholders and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing.

Fees and emoluments of Directors and key management personnel

	2018	2017
	€	€
Non-executives		
Membership fees (*Note 9*)	**104.819**	108.412
Executives		
Salaries and other short-term benefits	**347.850**	417.000
Employer's contributions	**38.163**	39.195
	386.013	456.195
	490.832	564.607

The Bank considers only the two Executive directors as key management personnel.

Receivables from parent company (*Note 17*)

		2018	2017
Name	**Nature of transactions**	**€**	€
Ancoria Investments Plc	Current account balance	**108.066**	88.745

The balance due from the parent company is interest free and does not have a specified repayment date. It concerns amounts paid on behalf of the parent company.

Rental and subsequent acquisition of premises

On 2 December 2016, an entity controlled by directors of the Bank acquired the rented premises of the Bank in Limassol. The Bank consented to the sale agreement on the condition that its rights and obligations for the remaining term of its rental agreement, as well as any other rights and obligations of the Bank were retained and that a new agreement would be signed between the Bank, the previous and the current owners of the property by virtue of which the new owner would be bound by the existing rental terms towards the Bank. The said agreement was signed on 2 December 2016.

On 20 December 2017, the Bank entered into an agreement to acquire its rented premises in Limassol. In accordance with the terms of the agreement, the Bank will pay a sum of €4.100.000 in tranches. The consideration is considered to have taken place at an arm's length based on supporting valuation reports provided by independent valuators.

The first payment of €2.122.959 was made on 20 December 2017 and was recognised under property and equipment along with the relevant stamp duty paid (Note 18). The second payment of €1.577.041 was made on 29 May 2018, at which point the ownership of the premises was transferred to the Bank, with an additional €100.000 paid during 2018. The residual amount of €300.000 for which a creditor has been recognised (and remains outstanding as at 31 December 2018), will be rendered due for settlement upon issuance of the Certificate of Final Approval by the competent authorities and the transfer of the title deed in the name of the Bank. The aforementioned amount is owed towards the initial owner (pre 2 December 2016) of the property, pursuant to an arrangement entered into between the latter and the entity that acquired the property on 2 December 2016.

33. Operating environment

During the past few years the Cyprus economy has been through turmoil that rendered the Republic of Cyprus unable to secure financing from international markets. As a result, the Republic of Cyprus entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the 'Troika') for financial support of €10 billion, which resulted into an agreement and the Eurogroup decision of 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through bail-in, safeguarding deposits below €100.000.

In March 2015, the final review by the Troika was successfully completed which signified the finalisation of the Memorandum of Understanding. Since the successful completion of the Memorandum, the three major credit rating agencies have upgraded Cyprus' sovereign various times and since the last quarter of 2018 the rating of the Cyprus sovereign has returned to investment grade by S&P and Fitch. In 2017, inflation returned to a positive figure of 0,7% after two consecutive years of deflation. In 2018, inflation reached 0,8% and is expected to remain positive in the following years. GDP growth has been significantly higher than the Eurozone average in both 2017 and 2018. All these constitute signs of the stabilisation of the economy.

Despite the achieved growth rate of GDP by 3,8% in 2018, the year was characterised by the sale of the Cyprus Cooperative Bank to Hellenic Bank. Furthermore, the non-performing exposures remain high in the banking system of Cyprus, despite ongoing efforts to further reduce them. The economic conditions remain uncertain and the full extent of the impact of the on-going financial crisis is proving to be difficult to anticipate or completely guard against. The political tensions in the eastern Mediterranean and Syria, as well as, the developments in the ongoing negotiations of the national problem provide additional elements of uncertainty.

Effects of developments

The Bank's management recognises the difficulties involved in predicting all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Bank. The Bank's management will closely monitor all future developments in the economic and political environment it operates and take appropriate measures.

34. Contingent liabilities, capital commitments and off-balance sheet financing

Commitments and contingent liabilities consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on-balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Bank (Note 30).

An analysis of the Bank's off-balance sheet items is provided below:

	2018	2017
	€	€
Contingent liabilities		
Letters of guarantee	**5.243.267**	1.858.333
Unutilised trade finance limits	**637.870**	2.338.460
	5.881.137	4.196.793
Commitments		
Undisbursed loan facilities	**17.329.824**	12.655.496
Undrawn overdraft facilities	**5.554.352**	3.828.611
	22.884.176	16.484.107
	28.765.313	20.680.900

The Bank's commitments in respect of operating leases are presented in Note 27.

Capital commitments

As at 31 December 2018, there were no significant commitments for contracted capital expenditures of the Bank other than the residual amounts owed in accordance with the agreement for the acquisition of the premises in Limassol as mentioned in Note 32. Capital commitments of the Bank as at 31 December 2017 amounted to €1.977.041.

Legal proceedings

As at 31 December 2018 and 2017, there were no pending litigation, claims or assessments against the Bank.

35. Events after the reporting date

There were no significant events after the end of the financial year which have a bearing on the understanding of the financial statements.

Independent auditor's report on pages 72 to 76.

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Independent Auditor's report

To the Members of ANCORIA BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Ancoria Bank Limited** (the 'Bank'), which are presented in pages 6 to 71 and comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We remained independent of the Bank throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Independent Auditor's report (continued)

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

Key audit matter	How we examined the key audit matter
Loan allowance for loans and advances to customers	
Loans and advances to customers of the Bank, net of allowances, amounted to €117.507.959 as at 31 December 2018 (€63.278.220 as at 31 December 2017), with loss allowances for the year ended 31 December 2018 on loans and advances to customers (charge for the period) amounting to €167.223 (€308.599 for the year ended 31 December 2017). With effect from 1 January 2018, the Bank has adopted IFRS 9, "Financial Instruments". As a result, the determination of such allowances is based on an expected credit loss (ECL) model instead of the incurred credit loss model applied under IAS39. The measurement of loss allowances due to impairment on loans and advances to customers, is considered a key audit matter since, the determination of the assumptions used by Management is highly subjective due to the high degree of judgement applied by Management for estimating expected credit losses. The Bank determines loss allowances due to impairment on loans and advances to customers to reflect expected credit losses, on both an individual as well as a collective basis. Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include: • Accounting interpretations and modelling assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer • Inputs and assumptions used to estimate the impact of multiple economic scenarios • Timely identification of exposures with significant increase in credit risk and credit impaired exposures • Valuation of collateral and assumptions over future cash flows on individually assessed credit-impaired exposures, including the assessment of multiple scenarios • Accuracy and sufficiency of the related financial statement disclosures. Management has provided further information with respect to the accounting principles and accounting policies for the determination of loss allowances on loans and advances to customers due to impairment, with respect to the management of credit risk and with respect to the recognition of such loss allowances, in Notes 2.9, 3.2 and 30 to the financial statements.	Based on our risk assessment and following a risk-based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter, which included, inter alia, the following audit procedures: • The credit granting process of the Bank was compared with the Central Bank of Cyprus' requirements (based on applicable regulations and directives) to identify and assess the impact of any discrepancies. • The controls in place for the credit granting process were reviewed and their adequacy, in terms of design and implementation and operating effectiveness, was assessed. • An assessment of the appropriateness of methodologies and policies adopted by Management with respect to impairment of loans and advances to customers in accordance with IFRS 9, "Financial Instruments". • An assessment of the design and implementation of internal controls relevant to the audit, including controls around the methodologies applied, risk models employed, significant assumptions employed by Management, accuracy and completeness of data inputs and model calculations as well as controls over manual processes for valuation of collateral. • With the support of our internal credit risk specialists, we have obtained and tested evidence to support the appropriateness of probability of default, loss given default and exposure at default assumptions. • With the support of our internal credit risk and modelling specialists, we conducted a review of the impairment methodology of the Bank, reperforming certain key steps so as to gain assurance over the validity and consistency of calculations in relation to collective assessment allowances. • Obtained and tested evidence of timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures. • On a sample basis assessed the reasonableness of significant assumptions used in the measurement of impairment of individually assessed exposures, including valuation of collaterals as well as assumptions used for estimating future discounted cash flows. • We assessed whether the disclosures appropriately disclose and address the uncertainty, which exists when determining the expected credit losses. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear. The above procedures were completed in a satisfactory manner.

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Independent Auditor's report (continued)

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

Key audit matter	How we examined the key audit matter
General Information Technology Control Systems and internal controls over financial reporting	
The Bank's financial reporting processes are highly dependent on Information Technology ("IT") systems supporting automated accounting and reconciliation procedures, thus leading to a complex IT environment, pervasive in nature in which a significant number of transactions are processed daily, across numerous locations. This is a key audit matter since it is important that controls over access security, system change control and data centre and network operations, are designed and operate effectively to ensure complete and accurate financial records/information.	Based on our risk assessment, we have tested the design and operating effectiveness of General Information Technology Controls relevant to financial reporting. Our audit procedures included the assessment of access rights over applications, operating systems and databases, the process followed over changes made to information systems, as well as data centre and network operations. In summary, our key audit procedures included, among other, testing of: • User access provisioning and de-provisioning process • Privileged access to applications, operating systems and databases • Change management procedure over applications, operating systems and databases (user request, user acceptance testing and final approval for promotion to production) • Data centre and network operations. The above procedures were completed in a satisfactory manner.

Reporting on other information

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

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

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

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

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

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

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

Independent Auditor's report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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Independent Auditor's report (continued)

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Bank on 20 February 2015 by the Bank's Board of Directors. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 4 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 15 April 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-Audit Services

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

Other Legal Requirements

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

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

Other Matter

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Alexis Agathocleous.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of
Deloitte Limited
Certified Public Accountants and Registered Auditors

Nicosia, 17 April 2019

Credit Risk

TABLE A: Analysis of the credit portfolio according to performance status for balances

As at 31 December 2018

	Gross carrying amount				Accumulated impairment			
		Of which non-performing exposures	Of which exposures with forbearance measures			Of which non-performing exposures	Of which exposures with forbearance measures	
				Of which non-performing exposures				Of which non-performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances	**117.961**	**4**			**453**	**1**		
General governments								
Other financial corporations	**1.038**				**6**			
Non-financial corporations	**37.312**	**2**			**251**			
Of which: Small and Medium-sized Enterprises[2]	34.286	2			187			
Of which: Commercial real estate[2]	19.105				76			
Non-financial corporations by sector								
Manufacturing	2.510				7			
Construction	7.305				55			
Wholesale and retail trade	3.686	1			36			
Transportation and storage	2.156				57			
Real estate activities	6.876				45			
Professional and scientific services	4.402				10			
Education	4.083				4			
Other sectors	6.294	1			37			
Households	**79.611**	**2**			**196**	**1**		
Of which: Residential mortgage loans[2]	64.682				160			
Of which: Credit for consumption[2]	5.199	2			13	1		

[2] The analysis shown under lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers may be counted under both categories.

Credit Risk (continued)

TABLE A: Analysis of the credit portfolio according to performance status for balances (continued)

As at 31 December 2017

	Gross carrying amount				Accumulated impairment			
		Of which non-performing exposures	Of which exposures with forbearance measures	Of which non-performing exposures		Of which non-performing exposures	Of which exposures with forbearance measures	Of which non-performing exposures
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances	**63,587**				**309**			
General governments								
Other financial corporations								
Non-financial corporations	**16,485**				**168**			
Of which: Small and Medium-sized Enterprises[3]	15,170				138			
Of which: Commercial real estate[3]	10,586				111			
Non-financial corporations by sector								
Manufacturing	283				6			
Construction	2,242				29			
Wholesale and retail trade	3,040				24			
Transportation and storage	2,051				37			
Real estate activities	3,839				51			
Professional and scientific services	2.797				4			
Education	315				2			
Other sectors	1.918				15			
Households	**47,102**				**141**			
Of which: Residential mortgage loans[3]	43.913				128			
Of which: Credit for consumption[3]	3.189				13			

[3] The analysis shown under lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers may be counted under both categories.

Credit Risk (continued)

TABLE B: Analysis of the credit portfolio on the basis of their origination date[4] for balances

As at 31 December 2018

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Within 1 year	48.624	2	202	20.484	1	105	1.038		6	27.103	1	92
1 - 2 years	44.086	2	144	10.008	1	85				34.078	1	59
2 - 3 years	25.232		107	6.803		61				18.429		45
3 - 5 years	19			17						1		
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**117.961**	**4**	**453**	**37.312**	**2**	**251**	**1.038**		**6**	**79.611**	**2**	**196**

[4] The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. the contract date.

Credit Risk (continued)

TABLE B: Analysis of the credit portfolio on the basis of their origination date[5] for balances (continued)

As at 31 December 2017

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment	Total	Non-performing	Accumulated impairment
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Within 1 year	36.894		159	9.255		91				27.639		68
1 - 2 years	26.688		150	7.230		77				19.458		73
2 - 3 years	5									5		
3 - 5 years												
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**63.587**		**309**	**16.485**		**168**				**47.102**		**141**

[5] The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. the contract date.