ANCORIA BANK

banking redefined

ANNUAL FINANCIAL REPORT 2016

Contents

Board of Directors

Martin Eduard Philip Schenk (Chairman)
Charalambos Panayiotou (Vice Chairman)
Bo Sievert Larsson (Non-executive)
Stelios Thrasyvoulou (Non-executive) – appointed 30 April 2015 and resigned 29 November 2016
Charidemos Theocharides (Non-executive)
Odysseas Christodoulou (Non-executive)
Athena Papadopoulou (Non-executive)
Evan Gavas (Non-executive) – appointed 6 March 2017
Marios Clerides (Non-executive) – appointed 11 April 2017
Evgenia Christodoulou (Executive)
Ioannis Loizou (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 2016.

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.

Activities

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 before 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.

Detailed information about the operating environment is set out in Note 30 to the Financial Statements.

Financial Results

The Bank's results for the year are set out on page 7.

The Bank commenced banking operations from the beginning of October 2015. As such, the results for the comparative year 2015 are representative only for one quarter of operations, a period during which most of the business focus was placed on approaching potential customers and opening current accounts.

The main financial highlights of the Bank for year 2016 are as follows:

	2016	2015
	€	€
Profit or Loss		
Net interest income / (loss)	**6.948**	(2.739)
Operating income / (loss)	**28.342**	(16.259)
Loss from operations	**(5.368.936)**	(2.984.864)
Provisions for impairment of loans and advances	**(66.580)**	-
Loss for the year after tax	**(5.435.516)**	(2.984.864)
Loss per ordinary share in issue (€)	**53,82**	29,55

	2016	2015
	€	€
Key Financial Position figures and ratios		
Customer deposits	**37.521.835**	4.587.679
Loans and advances to customers (gross)	**24.666.415**	47.667
Loans and advances to customers (net)	**24.599.835**	47.667
Net loans to deposits ratio	**66%**	1%
Loans in arrears over 90 days	**-**	-
Common Equity Tier 1 Capital ratio	**188,4%**	381,5%
Total Capital ratio	**188,7%**	381,5%
Risk weighted assets	**21.187.693**	11.837.825

Dividends

In 2016, no dividends were paid or declared by the Bank (2015: €nil).

Business Centres

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

Board of Directors

The members of the Company's Board of Directors as at 31 December 2016 and as of the date of this report are presented on page 2.

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

Information relating to share capital

Authorised capital

Under its Memorandum, the Company fixed its 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 2016, the issued share capital of the Bank amounted to €50 million, through contributions from its immediate parent. This threshold was a prerequisite for the validity of the banking licence.

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 and liquidity risk. Detailed information relating to risk management is set out in Note 27 to the Financial Statements.

Events after the reporting date

Any significant events that occurred after the reporting date are described in Note 32 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

26 April 2017

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016

	Note	**2016 €**	2015 €
Interest income	*4*	**205.921**	1.325
Interest expense	*5*	**(198.973)**	(4.064)
Net interest income		**6.948**	(2.739)
Fee and commission income		**51.678**	97
Fee and commission expense		**(51.508)**	(11.249)
Net foreign exchange gains / (losses)		**7.424**	(2.368)
Other income		**13.800**	-
		28.342	(16.259)
Staff costs	*6*	**(2.484.604)**	(1.583.582)
Depreciation and amortisation of property, equipment and intangible assets	*15,16*	**(939.749)**	(206.067)
Other operating expenses	*7*	**(1.972.925)**	(1.178.956)
Loss from operations		**(5.368.936)**	(2.984.864)
Provisions for impairment of loans and advances	*12*	**(66.580)**	-
Loss before tax	*8*	**(5.435.516)**	(2.984.864)
Income tax expense	*9*	**-**	-
Loss for the year		**(5.435.516)**	(2.984.864)
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Loss on revaluation of investments available-for-sale		**(172)**	-
Total comprehensive loss for the year		**(5.435.688)**	(2.984.864)

Statement of Financial Position
as at 31 December 2016

	Note	2016 €	2015 €
ASSETS			
Cash and balances with Central Bank	*10*	**34.798.717**	783.649
Placements with banks	*11*	**5.687.390**	43.269.772
Loans and advances to customers	*12*	**24.599.835**	47.667
Investments held-to-maturity	*13*	**8.398.240**	3.052.821
Investments available-for-sale	*14*	**302.807**	-
Property and equipment	*15*	**3.121.056**	2.695.957
Intangible assets	*16*	**1.286.111**	1.480.744
Other assets	*17*	**1.197.917**	502.873
Total assets		**79.392.073**	51.833.483
LIABILITIES			
Customer deposits	*18*	**37.521.835**	4.587.679
Other liabilities	*19*	**664.247**	604.125
Total liabilities		**38.186.082**	5.191.804
EQUITY			
Share capital	*20*	**101.000**	101.000
Share premium	*20*	**49.900.000**	49.900.000
Revaluation reserve	*21*	**(172)**	-
Accumulated losses	*22*	**(8.794.837)**	(3.359.321)
Total equity		**41.205.991**	46.641.679
Total liabilities and equity		**79.392.073**	51.833.483

On 26 April 2017, the Board of Directors of Ancoria Bank Limited authorised these financial statements for issue.

Charalambos Panayiotou
Vice Chairman of the Board

Ioannis Loizou
Member of the Board and Chief Executive Officer

Evgenia Christodoulou
Member of the Board and Deputy Chief Executive Officer

Savvas Pashias
Chief Financial Officer

Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital (Note 20) €	Share premium (Note 20) €	Revaluation reserve (Note 21) €	Accumulated losses (Note 22) €	Total €
Balance at 1 January 2016	101.000	49.900.000	-	(3.359.321)	46.641.679
Comprehensive income					
Loss for the year	-	-	-	(5.435.516)	(5.435.516)
Other comprehensive loss for the year	-	-	(172)	-	(172)
Total comprehensive loss for the year	-	-	(172)	(5.435.516)	(5.435.688)
Balance as at 31 December 2016	**101.000**	**49.900.000**	**(172)**	**(8.794.837)**	**41.205.991**
Balance at 1 January 2015	89.493	44.158.007	-	(374.457)	43.873.043
Comprehensive income					
Loss for the year	-	-	-	(2.984.864)	(2.984.864)
Total comprehensive loss for the year	-	-	-	(2.984.864)	(2.984.864)
Transactions with owners					
Issue of share capital	11.507	5.741.993	-	-	5.753.500
Total transactions with owners	11.507	5.741.993	-	-	5.753.500
Balance at 31 December 2015	**101.000**	**49.900.000**	**-**	**(3.359.321)**	**46.641.679**

Share premium is not available for distribution.

Statement of Cash Flows
for the year ended 31 December 2016

	Note	**2016 €**	2015 €
Net cash flow from operating activities	*25*	**3.240.410**	1.874.556
Cash flow from investing activities			
Purchase of property, equipment and intangible assets	*15,16*	**(1.170.215)**	(3.768.416)
Net purchase of held-to-maturity investments		**(5.334.659)**	(3.051.719)
Purchase of available-for-sale investments		**(302.850)**	-
Net cash flow used in investing activities		**(6.807.724)**	(6.820.135)
Cash flow from financing activities			
Proceeds from issue of share capital	*20*	**-**	5.753.500
Net cash flow from financing activities		**-**	5.753.500
Net (decrease) / increase in cash and cash equivalents		**(3.567.314)**	807.921
Cash and cash equivalents			
At 1 January		**44.053.421**	43.245.500
Net (decrease) / increase in cash and cash equivalents		**(3.567.314)**	807.921
At 31 December	*26*	**40.486.107**	44.053.421

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 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 26 April 2017.

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.

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 23.

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.

2. Significant accounting policies (continued)

2.2. Adoption of new and revised IFRSs

The Bank has already adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2016. The adoption of these Standards did not have a material effect on the accounting policies of the Bank.

Standard / Interpretation	**Effective for annual periods beginning on or after:**
Amendments to IAS 19 *Defined Benefit Plans: Employee Contribution*	1 February 2015
Annual Improvements to IFRSs 2010-2012 Cycle	1 February 2015
Amendments to IAS 1 *Disclosure Initiative*	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016

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

Up to the date of approval of the financial statements, the IASB has published certain new standards, interpretations and amendments to existing standards, the adoption of which is not mandatory for the current reporting period and which the Bank has not adopted early, as follows:

a) Standards and interpretations issued by the IASB and adopted by the EU

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

b) Standards and interpretations issued by the IASB not yet adopted by the EU

Standard / Interpretation	**Effective for annual periods beginning on or after:**
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
IFRS 16 *Leases*	1 January 2019
Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*	1 January 2017
Amendments to IAS 7 *Disclosure Initiative*	1 January 2017
Clarification to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2017/2018
IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018

2. Significant accounting policies (continued)

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

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 9 *Financial Instruments***

  IFRS 9 (as revised in 2014) will supersede IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. The completed IFRS 9 contains the requirements for a) classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

- **IFRS 15 *Revenue from Contracts with Customers***

  IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 includes far more prescriptive guidance to deal with specific scenarios and requires extensive disclosures in the financial statements.

- **IFRS 16 *Leases***

  Replaces the existing guidance in IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. The standard introduces a single lessee accounting model, which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months and depreciation / amortisation of lease assets separately from interest on lease liabilities in the profit or loss.

2.4. Turnover

Turnover consists of interest income, fee and commission income, foreign exchange income and other income.

2.5. Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Bank and these can be reliably measured.

2.5.1. Interest income

For all financial assets measured at amortised cost and interest-bearing financial assets classified as available-for-sale investments or at fair value through profit or loss, interest income is recognised using the effective interest rate method.

The effective interest rate 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 effective interest rate, 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.

Interest income is recognised on the recoverable portion of impaired loans applying the rate of interest used to discount the future cash flows for measuring the impairment loss.

The carrying amount of a financial asset or liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

2. Significant accounting policies (continued)

2.5. Revenue recognition (continued)

2.5.2. Fee and commission income

Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised using the effective interest rate method as part of interest income.

2.5.3. Dividend income

Dividend income is recognised in the profit or loss when the right to receive payment is established.

2.6. Foreign currency translation

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

Transactions in foreign currencies are recorded using the functional currency rate of exchange presiding at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange presiding at the reporting date. All differences are recognised in the profit or loss.

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates presiding at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates presiding at the date when the fair value is determined.

2.7. Tax

Tax on income is provided in accordance with the fiscal regulations and rates applicable 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 substantially enacted by the reporting date.

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.

2. Significant accounting policies (continued)

2.8. Financial Instruments

2.8.1. Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. 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.

2.8.2. 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 the profit or loss under *Net foreign exchange gains / losses* line in the case of currency derivatives and under *Financial instruments gains / losses* line in the case of all other derivatives.

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

Derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself measured at fair value with revaluation recognised in the profit or loss. The embedded derivatives separated from the host are carried at fair value, with any revaluation gains / losses recognised under *Financial instruments gains / losses* line in the profit or loss.

2.8.3. Financial assets / liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the balance sheet at fair value. Any revaluation gains / losses are recognised under *Financial instruments gains / losses* line in the profit or loss, whilst interest income and expense are included in the corresponding heading in the profit or loss according to the terms of the relevant contract. In the case of dividend income, this is recognised under *Other income* line when the right to receive the dividend has been established.

2. Significant accounting policies (continued)

2.8. Financial Instruments (continued)

2.8.4. Financial assets / liabilities designated upon initial recognition at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

These assets do not form part of any trading portfolio because no recent pattern of short-term profit taking exists. They may include listed debt securities hedged by derivatives and not designated for hedge accounting, as well as, unlisted equities that are managed on a fair value basis.

Financial assets and financial liabilities designated upon initial recognition at fair value through profit or loss are recognised in the balance sheet at fair value. Changes in fair value are recognised under *Financial instruments gains / losses* line in the profit or loss. Interest income and expense are included under the corresponding headings in the profit or loss according to the terms of the relevant contract, while any dividend income is recognised under *Other income* line when the right to receive the dividend has been established.

2.8.5. Held-to-maturity investments

Held-to-maturity investments are those non-derivative instruments with fixed or determinable payments and fixed maturities and which the bank has the intention and ability to hold to maturity.

After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is 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 is included under *Interest income* line and any losses arising from impairment of such investments are recognised in the profit or loss. If as a result of a change in intention or ability it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and re-measured at fair value, with any difference between its carrying amount and fair value accounted for accordingly.

2.8.6. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are 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 are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment are recognised in the profit or loss under *Provisions for impairment of loans and advances* line in the case of loans and advances to customers and under *Impairment of other financial instruments* line for all other items.

2. Significant accounting policies (continued)

2.8. Financial Instruments (continued)

2.8.6. Loans and receivables (continued)

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes. Such loans are taken into account in determining the inputs for collective impairment calculation. Loans subject to individual impairment assessment whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. Any resulting difference is recognised in profit or loss. The carrying amounts of loans that have been classified as renegotiated retain this classification in accordance with the rules of the technical standard of the European Banking Authority ('EBA').

2.8.7. Available-for-sale investments

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

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss under *Financial instruments gains / losses* line.

2.8.8. Other financial liabilities

Other financial liabilities refer mainly to customer deposits 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 effective interest rate method.

2.8.9. Amounts owed to depositors

Amounts owed to depositors are financial instruments where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder or other banks.

At initial recognition the amounts owed to depositors are recognised at fair value. After initial recognition, amounts owed to depositors are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the face value and initial costs that are an integral part of the effective interest rate. The corresponding interest expense is recognised in the profit or loss under *Interest expense* line.

2.8.10. Employee benefits

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

2. Significant accounting policies (continued)

2.8. Financial Instruments (continued)

2.8.11. General

Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis.

The following table summarises the treatment of each financial instrument category in terms of measurement methodology after initial recognition and the statement under which any gains or losses are recognised.

Category	Measurement	Recognition of gains & losses
Loans and receivables	Amortised cost using Effective Interest Rate method	Profit or loss
Held-to-maturity	Amortised cost using Effective Interest Rate method	Profit or loss
At fair value through profit or loss	Fair value	Profit or loss
Available-for-sale	Fair value	Other comprehensive income (except for interest, impairment and foreign exchange losses which are recognised in profit or loss). The cumulative gain or loss that was recognised in other comprehensive income is recognised in profit or loss.

2.9. Netting and derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired,
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts being recognised in profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the statement of financial position.

2. Significant accounting policies (continued)

2.10. Impairment of financial assets

2.10.1. Loans and receivables

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. Such objective evidence of impairment is a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults. There is objective evidence that a loan is impaired when it is probable that the Bank will not be able to collect all amounts due, according to the original contract terms.

For loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is performed for loans and advances that are not individually significant.

The Bank accounts for impairment provisions using a methodology consistent with IAS 39 and the Central Bank of Cyprus' Directive on Loan Impairment and Provisioning Procedures of 2014 to 2016. Further, in an effort towards IFRS 9 compliance in 2018, the Bank has introduced the following stages in terms of categorising its facilities:

- **Stage 1** - As soon as facilities are originated

  Group exposures below a specific threshold are assessed under a collective basis using 12-month probability of default estimates. Group exposures above the specified threshold are assessed on an individual basis.

- **Stage 2** - When there is a significant increase in credit risk

  Group exposures are assessed on a collective basis by using a lifetime expected probability of default rather than a 12-month probability as per Stage 1.

- **Stage 3** - When there is evidence of impairment or credit losses have occurred

  This stage is assessed on an individual basis, without accounting for any specified exposure thresholds.

The above stage classification is currently used for internal monitoring purposes and will be applied to exposures, for the purpose of determining the impairment provisions, with the adoption of IFRS 9 in 2018. Currently all exposures lie within the Stage 1 classification.

All facilities which are assessed on an individual basis but for which no impairment is recognised are included in the collective assessment according to the group with the most similar credit characteristics.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral. The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

2. Significant accounting policies (continued)

2.10. Impairment of financial assets (continued)

2.10.1. Loans and Receivables (continued)

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan and the credit score of the customer.

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

The carrying amount of the loan is reduced using a provision account and the amount of the loss is recognised in the profit or loss. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. If in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited in the profit or loss.

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as real estate, cash and other tangible assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's credit policy. To the extent possible, the Bank uses active market data for valuing any financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, are valued on a frequent basis according to relevant directives, type and market fluctuations. Between formal valuations, value is projected based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

2.10.2. Held-to-maturity investments

For held-to-maturity investments, the Bank assesses at each reporting date whether there is objective evidence of impairment. If this is the case, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised under *Impairment of other financial instruments* line in the profit or loss.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the same heading in the profit or loss.

2. Significant accounting policies (continued)

2.10. Impairment of financial assets (continued)

2.10.3. Available-for-sale investments

For available-for-sale investments, the Bank assesses whether there is objective evidence of impairment at each reporting date.

In the case of equity securities classified as available-for-sale, objective evidence would include a significant or prolonged decrease, in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is deducted from the respective revaluation reserve in other comprehensive income and recognised under *Impairment of other financial instruments* line in the profit or loss. Impairment losses on equity securities are not reversed through the profit or loss. Increases in their fair value after impairment are recognised in the respective revaluation reserve in other comprehensive income.

In the case of debt securities classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through *Impairment of other financial instruments* line in the profit or loss.

2.11. Hedge accounting

The Bank uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks. 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, as well as the method that will be used to assess the effectiveness of the hedging relationship both at inception and at ongoing basis.

2.12. Property and equipment

2.12.1. 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.

2.12.2. 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).

2.12.3. 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).

2. Significant accounting policies (continued)

2.13. Intangible assets

Intangible assets mainly 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.

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% amortisation per annum). 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.

2.14. Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

2.15. Cash and cash equivalents

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

2.16. Leases

2.16.1 Finance Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.16.2 Operating Leases

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are considered operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

2.17. 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.

2.18. Share capital

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

2.19. Financial guarantees

The Bank issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised at fair value. Subsequently, the Bank's liability under each guarantee is measured at the higher of:

- the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the profit or loss under *Fee and commission income* line, in accordance with the terms of the guarantee, and
- the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the profit or loss under *Provisions for impairment of loans and advances* line. The remaining balance of the liability for financial guarantees is recognised under *Fee and commission income* line in the profit or loss when the guarantee is fulfilled, cancelled or expired.

2.20. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in 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 30, 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. Provisions for impairment of loans and advances

The Bank reviews loans and advances to assess whether a provision for impairment should be recorded in the profit or loss.

For individually significant assets, impairment 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 impairment 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.

3. Significant accounting estimates and judgments (continued)

3.2. Provisions for impairment of loans and advances (continued)

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

In addition to provisions for impairment on an individual basis, the Bank also makes collective impairment provisions 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 impairment losses 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.

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.

3.4. Fair value of financial assets and liabilities

Management estimates that the fair value of financial assets and liabilities approximates their carrying amounts as presented in the statement of financial position.

3.5 Useful economic lives of tangible and intangible assets

The estimation of the useful lives of items of tangible and intangible assets is a matter of judgement based on the Bank's experience with similar assets. The future economic benefits embodied in property, plant and equipment and intangible assets, are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of assets (including operational factors and utilisation of maintenance programs), often will result in a change of the economic benefits from these assets.

Management periodically reviews the appropriateness of assets' useful economic lives. Revision to estimate of the useful lives of assets is recognised prospectively in the period of the revision and where applicable, future periods. Accordingly, this may affect the amount of depreciation / amortisation charge and carrying amount of assets in the future.

4. Interest income

	2016	2015
	€	€
Loans and advances to customers	**165.042**	223
Investments held-to-maturity	**40.879**	1.102
	205.921	1.325

5. Interest expense

	2016	2015
	€	€
Customer deposits	**80.035**	4.064
Balances with Central Bank	**91.477**	-
Placements with banks	**27.461**	-
	198.973	4.064

Balances held with the Central Bank and other banks carry negative interest, which averaged 0,40% as at 31 December 2016.

6. Staff costs

	2016	2015
	€	€
Staff salaries and other remuneration (net of any subsidies)	**2.116.103**	1.381.331
Social insurance and other employer's contributions	**368.501**	202.251
	2.484.604	1.583.582

The number of persons employed by the Bank as at 31 December 2016 was 65 (2015: 57). Remuneration concerning Directors and key management personnel is disclosed in Note 29.

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

	2016	2015
	€	€
Rental of premises	**310.932**	180.864
Utilities and other premises expenses	**142.441**	29.604
Directors' remuneration and expenses	**113.484**	95.760
Auditors' remuneration for statutory audit	**31.535**	31.535
Auditors' remuneration for other assurance engagements	**2.380**	16.958
Legal and consultancy fees	**168.513**	255.221
Advertising and promotion	**235.194**	40.207
Special tax levy on deposits	**40.618**	-
Depositor Protection Scheme contribution	**-**	50.000
Computer supplies, maintenance and related expenses	**521.122**	343.316
Other operating expenses	**406.706**	135.491
	1.972.925	1.178.956

8. Loss before tax

Loss before tax is stated after charging the following items:

	2016	2015
	€	€
Directors' remuneration *(Note 29)*	**107.459**	93.896
Operating lease rentals for buildings and software	**369.286**	239.650
Auditors' remuneration for:		
- Statutory audit	**31.535**	31.535
- Other non-audit assurance engagements	**2.380**	16.958

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

9. Tax

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

	2016	2015
	€	€
Loss before tax	**(5.435.516)**	(2.984.864)
Corporation tax based on the applicable rates	**(679.440)**	(373.108)
Tax effect of:		
- Non-deductible expenses	**283.526**	11.426
- Allowances and income not subject to tax	**(277.716)**	(10.075)
- Tax losses for the year	**673.630**	371.757
Tax charge	**-**	-

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

On 21 December 2012, the House of Representatives enacted amendments to the Income Tax law, according to which the loss of any tax year shall not be carried forward and shall not be offset against any income of any tax year further than five years from the end of the tax year in which the loss arose. As at 31 December 2016, the Bank's tax losses (subject to Inland Revenue assessment) to be carried forward amounted to €8.461.243.

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 2016, the total Special Tax Levy imposed on the Bank's qualifying deposits amounted to €40.618 (2015: €nil) and is included under *Other operating expenses* line.

10. Cash and balances with Central Bank

	2016	2015
	€	€
Cash	**2.041.498**	733.649
Balances with Central Bank of Cyprus	**32.757.219**	50.000
	34.798.717	783.649

As at 31 December 2016, the minimum reserve requirement with Central Bank of Cyprus (‘CBC’) was €257.236 (2015: €nil).

The analysis of credit ratings for deposits with the CBC by independent rating agencies is presented in Note 27. Balances with CBC carry an interest charge for amounts in excess of calculated minimum reserves.

11. Placements with banks

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 27. An analysis of placements between local and foreign banks is presented below:

	2016	2015
	€	€
Foreign Banks	**5.601.874**	43.110.791
Local Banks	**85.516**	158.981
	5.687.390	43.269.772

The majority of the total placements with foreign banks at the end of 2015 was kept with Skandinaviska Enskilda Banken AB (‘SEB’), amounting to €36.418.813. As of 2016, the balance kept with SEB amounts to €3.407.808.

The rest of the placements with foreign banks for both 2015 and 2016 refer to current balances on nostro accounts with correspondent banks. All placements with foreign banks carry an interest charge based on the interbank rate of the relevant term and currency.

12. Loans and advances to customers

	2016	2015
	€	€
Retail		
Housing	**17.054.481**	-
Consumer	**1.007.191**	47.667
Overdrafts	**62.992**	-
	18.124.664	47.667
Business		
Loans	**6.178.902**	-
Overdrafts	**362.849**	-
	6.541.751	-
Gross loans and advances to customers	**24.666.415**	47.667
Provisions for impairment of loans and advances	**(66.580)**	-
	24.599.835	47.667

Provisions for impairment of loans and advances	**2016**	2015
	€	€
1 January	**-**	**-**
Provisions for impairment for the year	**66.580**	-
31 December	**66.580**	-

The total amount of provisions for the year comprises of €19.422 provisions for loans and advances individually assessed for impairment and €47.158 for loans and advances assessed collectively assessed for impairment. There was no interest suspended as at 31 December 2016.

Non-performing exposures

On 31 December 2016, no non-performing exposures were held by the Bank in accordance with the European Banking Authority's ('EBA') technical standards published in 2014.

According to the standards, the following exposures are considered as non-performing ('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 account is impaired as per the applicable accounting framework
- 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.

12. Loans and advances to customers (continued)

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.

The EBA is in the process of finalising technical standards regarding the materiality threshold for credit obligations past due. The suggestion of the EBA is as follows:

- 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%.

Forborne exposures

No loans have been forborne in 2016, 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.

12. Loans and advances to customers (continued)

Bank's policy for specific and collective provisions

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

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

- To groups of connected persons which exceed 3% of the Bank's share capital and reserves
- 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 2.10.1.

For the exposures that are individually assessed for impairment, discounted cash flow calculations are performed. The amount of impairment 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 borrowers operations, any other sources of funds and the proceeds from liquidation of collateral where applicable. Property collateral values are assessed in accordance to the CBC's Directive on Loan Impairment and Provisioning Procedures in terms of expected amount to be received and timing of cash realisation.

Collective provision

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 impairment using the applicable Probability of Default and Loss Given Default rates that are set in the Bank's provisioning policy.

13. Investments held-to-maturity

	2016	2015
	€	€
Bonds		
Cyprus government	**5.040.663**	3.052.821
Other European governments	**964.228**	-
Banks and other organisations	**2.393.349**	
	8.398.240	3.052.821

Listed in Cyprus Stock Exchange	**4.498.972**	2.499.767
Listed in other stock exchanges	**3.899.268**	553.054
	8.398.240	3.052.821

Geographical breakdown based on region / country of issuer

	2016	2015
	€	€
Cyprus	**5.040.663**	3.052.821
Other European countries	**3.053.564**	**-**
Other non-European countries	**304.013**	**-**
	8.398.240	3.052.821

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.

The fair value of investments held-to-maturity as at 31 December 2016 was €8.429.935 (2015: €3.053.039), 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, all investments held-to-maturity 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 2016, the fair value of Treasury bills was €4.500.000 (2015: €2.500.000).

The weighted average effective yield on investments held-to-maturity held at the year end was 0,41% (2015: 0,64%).

14. Investments available-for-sale

	2016	2015
	€	€
Bonds		
Banks and other organisations	**302.807**	-

The portfolio of investments available-for-sale consists of a single investment in bonds issued by a US-registered banking organisation.

In accordance with the hierarchy followed for determining and disclosing fair value as mentioned in Note 13, all investments available-for-sale are classified as Level 1 for fair value disclosure purposes.

15. Property and equipment

Year 2016	Leasehold improvements	Equipment	Furniture and fittings	Other tangible assets	Total
	€	€	€	€	€
Cost					
1 January	1.841.218	492.237	402.572	32.851	**2.768.878**
Additions	306.606	351.925	129.199	-	**787.730**
Transfers	-	32.851	-	(32.851)	**-**
31 December	**2.147.824**	**877.013**	**531.771**	**-**	**3.556.608**
Depreciation					
1 January	40.663	22.409	9.849	**-**	**72.921**
Charge for the year	202.956	112.721	46.954	**-**	**362.631**
31 December	**243.619**	**135.130**	**56.803**	**-**	**435.552**
Net Book Value	**1.904.205**	**741.883**	**474.968**	**-**	**3.121.056**

Year 2015	Leasehold improvements	Equipment	Furniture and fittings	Other tangible assets	Total
	€	€	€	€	€
Cost					
1 January	-	-	-	-	-
Additions	1.841.218	492.237	402.572	32.851	2.768.878
31 December	1.841.218	492.237	402.572	32.851	2.768.878
Depreciation					
1 January	-	-	-	-	-
Charge for the year	40.663	22.409	9.849	-	72.921
31 December	40.663	22.409	9.849	-	72.921
Net Book Value	1.800.555	469.828	392.723	32.851	2.695.957

Leasehold improvements comprise of expenditure on the Bank's business centres and head office premises.

16. Intangible assets

	2016			2015
	Computer software and licenses	**Intangibles under development**	**Total**	Computer software and licenses
	€	**€**	**€**	€
Cost				
1 January	1.613.890	-	1.613.890	614.352
Additions	203.357	179.128	382.485	999.538
31 December	**1.817.247**	**179.128**	**1.996.375**	1.613.890
Amortisation				
1 January	133.146	-	133.146	-
Charge for the year	577.118	-	577.118	133.146
31 December	**710.264**	**-**	**710.264**	133.146
Net Book Value	**1.106.983**	**179.128**	**1.286.111**	1.480.744

Intangible assets mainly relate to software licences and banking systems that have been put in operation during 2015, on the commencement of banking operations. No amortisation was charged prior to commencement of operations.

17. Other assets

	2016	2015
	€	€
Receivables from parent company *(Note 29)*	**56.087**	36.838
Receivables from related companies *(Note 29)*	**-**	68
Deposits and prepayments	**343.539**	351.107
Other receivables	**798.291**	114.860
	1.197.917	502.873

Deposits and prepayments include an amount of €130.550 (2015: €240.700) relevant to the premises lease agreements.

Other receivables include an amount of €102.499 (2015: €113.804) 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 rest of other receivables mainly consist of cheques pending clearance and settlement accounts.

18. Customer deposits

	2016	2015
	€	€
Current accounts	**26.375.180**	936.825
Savings accounts	**1.101.950**	49.913
Fixed term deposit accounts	**10.044.705**	3.600.941
	37.521.835	4.587.679

19. Other liabilities

	2016	2015
	€	€
Taxes payable	**84.036**	54.777
Accrued expenses	**239.749**	377.056
VAT payable	**11.799**	35.972
Other creditors & liabilities	**328.663**	136.320
	664.247	604.125

20. Share capital and share premium

	2016			2015		
	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**	89.493	89.493	44.158.007
Share issue	**-**	**-**	**-**	11.507	11.507	5.741.993
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 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.

Following the above, as at 31 December 2015, 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.

There was no change in the authorised or issued share capital during 2016.

21. Revaluation reserve

Investments fair value reserve	2016 €	2015 €
1 January	**-**	-
Revaluation of investments available-for-sale	**(172)**	-
31 December	**(172)**	-

22. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2016 and 2015, 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 relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are 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 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 2014 and, as a result, no special defence contribution in relation to deemed dividend distribution was payable in the year.

23. Analysis of assets and liabilities by expected maturity

	2016			2015		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and balances with Central Bank	**34.798.717**	**-**	**34.798.717**	783.649	-	783.649
Placements with banks	**5.687.390**	**-**	**5.687.390**	43.269.772	-	43.269.772
Loans and advances to customers	**1.912.309**	**22.687.526**	**24.599.835**	9.590	38.077	47.667
Investments held-to-maturity	**4.498.972**	**3.899.268**	**8.398.240**	2.499.767	553.054	3.052.821
Investments available-for-sale	**-**	**302.807**	**302.807**	-	-	-
Property and equipment	**-**	**3.121.056**	**3.121.056**	-	2.695.957	2.695.957
Intangible assets	**-**	**1.286.111**	**1.286.111**	-	1.480.744	1.480.744
Other assets	**1.197.917**	**-**	**1.197.917**	502.873	-	502.873
	48.095.305	**31.296.768**	**79.392.073**	47.065.651	4.767.832	51.833.483
Liabilities						
Customer deposits	**10.044.705**	**27.477.130**	**37.521.835**	4.587.679	-	4.587.679
Other liabilities	**664.247**	**-**	**664.247**	604.125	-	604.125
	10.708.952	**27.477.130**	**38.186.082**	5.191.804	-	5.191.804

23. Analysis of assets and liabilities by expected maturity (continued)

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 provisions for impairment on loans and advances are classified in the over one year time band.
- Investments held-to-maturity and investments available-for-sale 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.
- Customer deposits are classified based on contractual maturity date. Current and Savings accounts are classified in the over one year time band.
- 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.

24. Operating leases

Commitments under operating leases are as follows:

Software licences

	2016	2015
	€	€
Within one year	**58.786**	58.786
Between two and five years	**117.572**	176.358
Over five years	**-**	-
	176.358	235.144

Properties

	2016	2015
	€	€
Within one year	**318.000**	300.000
Between two and five years	**1.478.450**	1.311.400
Over five years	**1.625.050**	1.889.100
	3.421.500	3.500.500

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.

25. Net cash flow from operating activities

	2016	2015
	€	€
Loss before tax	**(5.435.516)**	(2.984.864)
Adjustments:		
Depreciation and amortisation of property, equipment and intangible assets	**939.749**	206.067
Provisions for impairment of loans and advances	**66.580**	-
Income accrued but not received	**(10.887)**	(1.325)
	(4.440.074)	(2.780.122)
Increase in operating assets:		
Loans and advances to customers	**(24.618.748)**	(47.667)
Other assets	**(695.046)**	(468.275)
	(29.753.868)	(3.296.064)
Increase in operating liabilities:		
Customer deposits	**32.934.156**	4.587.679
Other liabilities	**60.122**	582.941
Net cash flow from operating activities	**3.240.410**	1.874.556

26. Cash and cash equivalents

	2016	2015
	€	€
Cash and balances with the Central Bank *(Note 10)*	**34.798.717**	783.649
Placements with banks *(Note 11)*	**5.687.390**	43.269.772
	40.486.107	44.053.421

At 31 December 2016, placements with the Central Bank amounted to €32.757.219 (2015: €50.000).

27. 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.

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.

27. Risk management (continued)

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 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. 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 the impairment provisions 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.

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.

27. Risk management (continued)

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.

27. 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.

	2016	2015
	€	€
Balances with the Central Bank *(Note 10)*	**32.757.219**	50.000
Placements with banks *(Note 11)*	**5.687.390**	43.269.772
Loans and advances to customers *(Note 12)*	**24.599.835**	47.667
Investments held-to-maturity *(Note 13)*	**8.398.240**	3.052.821
Investments available-for-sale *(Note 14)*	**302.807**	-
Other assets *(Note 17)*	**1.197.919**	502.873
Total on statement of financial position	**72.943.410**	46.923.133
Undisbursed loan facilities	**3.619.739**	-
Undrawn overdraft facilities	**1.292.910**	-
Letters of guarantee in issue	**477.103**	-
Total off-balance sheet position *(Note 31)*	**5.389.752**	-
Total credit exposure	**78.399.742**	46.923.133

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 an exposure to a client or group of connected clients 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.

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. The Bank exceeds the 25% threshold of eligible capital prior to credit risk mitigation with its exposure on its TARGET2 account kept with CBC and to Cyprus Government Bonds and T-bills. As these exposures take a 0% risk weight, there is no breach of the 25% threshold post credit risk mitigation.

Collateral and other credit enhancements

As at 31 December 2016, 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.

27. Risk management (continued)

Credit quality of loans and advances to customers

	2016	2015
Performing	**€**	€
Neither past due nor impaired	**24.489.357**	47.667
Past due but not impaired:		
- Up to 30 days	**177.058**	-
- 31 to 60 days	**-**	-
- 61 to 90 days	**-**	-
	24.666.415	47.667
Provisions for impairment	**(66.580)**	-
	24.599.835	47.667

Facilities shown as past due but not impaired represent one facility with 1 day in arrears as at 31 December 2016 and which has been settled since.

Non-Performing
No loans have been assessed as non-performing loans as at 31 December 2016 (2015: €nil).

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

	2016	2015
	€	€
Band 1	**6.219.655**	-
Band 2	**15.661.440**	28.098
Band 3	**2.775.427**	19.569
Band 4	**9.893**	-
Band 5	**-**	-
	24.666.415	47.667
	(66.580)	-
	24.599.835	47.667

27. 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 that are neither past due nor impaired as at 31 December 2016 amounted to €59.983.992 (2015: €68.298).

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:

	2016	2015
	€	€
AAA to BBB	**38.359.040**	43.160.791
CCC+ to CCC-	**85.569**	158.981
	38.444.609	43.319.772

Government and other bonds are analysed in accordance to S&P rating agency as follows:

	2016	2015
	€	€
AAA to BB	**8.701.047**	-
CCC+ to CCC-	**-**	3.052.821
	8.701.047	3.052.821
Issued by:		
Cyprus government	**5.040.663**	3.052.821
Other European governments	**964.228**	-
Financial corporations	**606.820**	-
Non-financial corporations	**2.089.336**	-
	8.701.047	3.052.821
Classified as:		
Investments held-to-maturity	**8.398.240**	3.052.821
Investments available-for-sale	**302.807**	-
	8.701.047	3.052.821

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

27. Risk management (continued)

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.

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 Liability Committee reviews the liquidity position on a monthly basis and takes the necessary actions to enhance the Bank's liquidity position.

Monitoring Process

It is also important that Treasury monitors cash flows and highly liquid assets 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 carrying amount of €1.273.000 as at 31 December 2016, 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 utilized by 31 December 2016, such assets are not encumbered in any manner.

27. 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
	€	€	€	€	€
Year 2016					
Customer deposits	37.521.835	37.573.923	28.059.524	3.069.467	6.444.932
Other liabilities	664.247	664.247	392.219	-	272.028
	38.186.082	**38.238.170**	**28.451.743**	**3.069.467**	**6.716.960**
Year 2015					
Customer deposits	4.587.679	4.619.503	1.037.849	56.141	3.525.513
Other liabilities	454.348	454.348	338.438	115.910	-
	5.042.027	5.073.851	1.376.287	172.051	3.525.513

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.

The calculation of protective liquidity in Euro and other currencies for supervisory purposes is submitted to the CBC every quarter, while additional information in relation to liquidity is submitted on a weekly basis. The minimum percentage of liquid assets is 20% of total Euro deposits while the respective percentage for foreign currencies is 70%.

The liquidity ratio in Euro was as follows:

	2016	2015
	%	%
Average for the year	**190,28**	1.013,33
Maximum ratio for the year	**244,55**	1.178,00
Minimum ratio for the year	**123,75**	848,66

The liquidity ratio in foreign currencies was as follows:

	2016	2015
	%	%
Average for the year	**183,70**	-
Maximum ratio for the year	**303,02**	-
Minimum ratio for the year	**100,40**	-

The foreign currency liquidity ratio is calculated using data denominated in foreign currencies other than the Euro.

27. Risk management (continued)

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.

Given the above, the Bank recognises that unforeseen political events can have negative impact on Bank's activities, operating results and position.

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.

28. Capital management

The main regulator that sets and monitors capital requirements for the Bank is the 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.

28. Capital management (continued)

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.

It is expected that the Basel Committee will finalise within 2017 its revisions to the standardised and internal ratings based approaches to the calculation of risk weighted assets for credit risk, a shift to a single standardised approach to operational risk and the application of a capital floor to limit the extent to which regulatory capital requirements calculated using internal model approaches to credit and market risk can diverge from calculations using standardised approaches.

Basel III Framework comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – 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. According to the directive, there are two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach.

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 includes rules to ensure that adequate capital is in place to support any risk exposures of the Bank and requires appropriate risk management, reporting and governance policies. Banks are assessing their capital and liquidity needs relative to their risks with their Internal Capital and Liquidity Adequacy Assessment Process ('ICAAP / ILAAP'), while at the same time maintaining communication with supervisors on a continuous basis. This procedure is monitored and evaluated by the CBC.

The Bank has prepared and submitted its first ICAAP / ILAAP report in 2016.

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.

28. Capital management (continued)

Capital position as per CRR / CRD IV

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.

At 31 December 2016, the Bank fully meets the minimum capital requirements. Specifically, the Common Equity Tier 1 ratio was 188,40%, Tier 1 ratio was 188,40%, and the Total Capital ratio was 188,72%.

	31 December 2016 €	31 December 2015 €
Common Equity Tier 1 capital	**39.918.622**	45.160.935
Additional Tier 1 capital	**-**	-
Tier 1 capital	**39.918.622**	45.160.935
Tier 2 capital	**66.580**	-
Total Regulatory Capital	**39.985.202**	45.160.935
Risk weighted assets - credit risk	**19.632.693**	11.837.825
Risk weighted assets - operational risk	**1.555.000**	-
Risk weighted assets - market risk	**-**	-
Total Risk Weighted Assets	**21.187.693**	11.837.825
Common Equity Tier 1 ratio	**188,40%**	381,50%
Tier 1 ratio	**188,40%**	381,50%
Total capital ratio	**188,72%**	381,50%
Minimum Ratios as per the CBC Directive		
Common Equity Tier 1 ratio	**4,5%**	4,5%
Tier 1 ratio	**6,0%**	6,0%
Total capital ratio	**9,0%**	9,0%

29. 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 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 31 December 2016 and at the date of signing of these financial statements are listed below:

Name / relationship	**Percentage of Share Capital in the parent company**
	%
Bo Sievert Larsson	40,40
Sievert Larsson Scholarship Foundation	19,20
Ancoria Insurance Ltd	20,00
Other shareholders	20,40
	100,00

The shareholders of Ancoria Investments Plc as at 31 December 2015 are listed below:

Name / relationship	**Percentage of Share Capital in the parent company**
	%
Bo Sievert Larsson	40,40
Sievert Larsson Scholarship Foundation	19,21
Ancoria Insurance Ltd	20,00
Other shareholders	20,39
	100,00

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) and their connected persons, as at 31 December 2016 and 31 December 2015 were as follows:

Name	**31 December 2016**	**31 December 2015**
	%	**%**
Ioannis Loizou	3,40	3,40
Evgenia Christodoulou	0,08	0,08
Bo Sievert Larsson	40,40	40,40
Charidemos Theocharides	0,23	0,23
Odysseas Christodoulou	0,80	0,80

29. Related party transactions (continued)

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 38,62% of the Company's issued share capital.

	2016	2015
	€	€
Deposits		
Members of the Board of Directors and key management personnel	**1.688.180**	553.817
Entity with significant influence	**3.982**	-
Other related parties	**13.327.262**	2.269.346
	15.019.424	2.823.163
Interest expense	**28.622**	2.760

	2016	2015
	€	€
Loans and advances		
Other related parties	**6.857**	-
Interest income	**56**	-

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 €2.769.006 (2015: €2.241.640), 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 €23.143 (2015: €nil).

During 2016, the Bank recognised a total income amounting to €13.800 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.

29. Related party transactions (continued)

Fees and emoluments of Directors and key management personnel

	2016	2015
	€	€
Non-executives		
Membership fees	**107.459**	93.896
Executives		
Salaries and other short-term benefits	**321.000**	304.000
Employer's contributions	**67.150**	64.533
	388.150	368.533
	495.609	462.429

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

Receivables from parent company *(Note 17)*

		2016	2015
Name	**Nature of transactions**	**€**	€
Ancoria Investments Plc	Current account balance	**56.087**	36.838
		56.087	36.838

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

Receivables from related parties *(Note 17)*

	2016	2015
Name	**€**	€
Ancoria Insurance Public Ltd (indirect shareholder)	**-**	68
	-	68

Rental of premises

On 2 December 2016, a company 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 are retained and that a new agreement will be signed between the Bank, the previous and the current owners of the property by virtue of which the new owner will be bound by the existing rental terms towards the Bank. The said agreement was also signed on 2 December 2016.

The current rental agreement runs until June 2025 and the Bank has the obligation to pay rentals one year in advance, payable in July of each year. The monthly rentals stipulated in the agreement are as follows:

	€
Until 30 June 2018	10.000
From 1 July 2018 until 30 June 2019	12.000
From 1 July 2019 until 30 June 2021	14.000
From 1 July 2021 until 30 June 2025	18.000

The rental up to 30 June 2017 has been paid in advance to the previous owner.

30. Operating environment

During the last years, the Cyprus economy has been adversely affected by the crisis in the Cyprus banking system and the inability of the Republic of Cyprus 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.

Since March 2013, Troika performed several reviews of the Cyprus' economic program with very positive outcomes which resulted in the disbursement of all scheduled tranches of financial assistance to Cyprus. The final review by the Troika was successfully completed in March 2015 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 at least two times each, signifying the positive developments in the Cypriot economy. In 2017, inflation is expected to return to positive figures after two consecutive years of deflation, which constitutes another sign of the stabilisation of the economy.

However, the economic conditions in Cyprus are still uncertain (unavailability of financing, high percentage of non-performing bank loans, high unemployment rates) 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 developments in the ongoing negotiations of the national problem, as well as the Presidential elections that are to take place in early 2018 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.

31. 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 the balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Bank (Note 27).

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

	2016	2015
	€	€
Contingent liabilities		
Letters of guarantee	**477.103**	-
Commitments		
Unutilised credit facilities	**4.912.649**	-
	5.389.752	-

The Bank's commitments in respect of operating leases are presented in Note 24.

31. Contingent liabilities, capital commitments and off-balance sheet financing (continued)

Capital commitments

As at 31 December 2016 and 2015, there were no significant commitments for contracted capital expenditures of the Bank.

Legal proceedings

As at 31 December 2016 and 2015, there were no pending litigation, claims or assessments against the Bank.

32. 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 53 to 55.

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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 7 to 52 and comprise the statement of financial position as at 31 December 2016, and the statements 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 2016, 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 are independent of the Bank 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors 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.

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

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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.

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

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Independent Auditor's report (continued)

Report on Other Legal Requirements

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

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

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

Nicosia, 26 April 2017

Credit risk

In February 2014, the CBC issued to credit institutions the Directive on Loan Impairment and Provisioning Procedures of 2014 to 2016, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Directive, in addition to those presented in the financial statements, are set out in the following tables.

Credit Risk (continued)

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

As at 31 December 2016

	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	**24,666**				**67**			
General governments								
Other financial corporations								
Non-financial corporations	**6,542**				**36**			
Of which: Small and Medium-sized Enterprises	6,538				32			
Of which: Commercial real estate	3,136							
By sector								
Construction	1							
Wholesale and retail trade	876				6			
Real estate activities	2,192							
Accommodation and food service activities	49							
Transportation and storage	470				1			
Other sectors	2,954				29			
Households	**18,125**				**31**			
Of which: Residential mortgage loans	17,055				15			
Of which: Credit for consumption	1,070				16			

Credit Risk (continued)

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

As at 31 December 2015

	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	**48**							
General governments								
Other financial corporations								
Non-financial corporations								
Of which: Small and Medium-sized Enterprises								
Of which: Commercial real estate								
By sector								
Construction								
Wholesale and retail trade								
Real estate activities								
Accommodation and food service activities								
Transportation and storage								
Other sectors								
Households	**48**							
Of which: Residential mortgage loans								
Of which: Credit for consumption	48							

Credit Risk (continued)

TABLE B: Analysis of the credit portfolio on the basis of their origination date* for balances

As at 31 December 2016

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	24,628		67	6,542		36				18,087		31
1 - 2 years	38									38		
2 - 3 years												
3 - 5 years												
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**24,666**		**67**	**6,542**		**36**				**18,125**		**31**

* 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* for balances (continued)

As at 31 December 2015

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									48		
1 - 2 years												
2 - 3 years												
3 - 5 years												
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	**48**									**48**		

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