ANCORIA BANK LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Contents

Board of Directors
Martin Eduard Philip Schenk (Chairman) – appointed 16 February 2015
Bo Sievert Larsson (Non-executive) – appointed 16 February 2015
Stelios Thrasyvoulou (Non-executive) – appointed 30 April 2015
Charidemos Theocharides (Non-executive) – appointed 16 February 2015
Charalambos Panayiotou (Non-executive) – appointed 16 February 2015
Odysseas Christodoulou (Non-executive) – appointed 16 February 2015
Athena Papadopoulou (Non-executive)
Evgenia Christodoulou (Executive)
Ioannis Loizou (Executive)

Secretary
Christos Papoutsas (appointed 16 February 2015)
Evgenia Christodoulou (appointed 28 January 2014; resigned 16 February 2015)

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
Certified Public Accountants and Registered Auditors
24 Spyrou Kyprianou Avenue
1075 Nicosia
Cyprus

The Board of Directors of Ancoria Bank Limited (the 'Company', or the 'Bank') submit to the shareholders their Report and the audited financial statements for the year ended 31 December 2015.

Incorporation
The Bank 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
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 fulifilled during 2015, and the Bank begun operations as a Credit Institution during the last quarter of the year.

Operating environment of the Bank and future 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. However, the state of the Cyprus economy has improved, evident by the latest IMF forecasts for positive GDP growth for years 2016 onwards, as well as the final review and closure of the Memorandum of Understanding with the Troika.

The Bank's main objective is to use its excessive liquidity to build a healthy and diversified loan portfolio both in terms of industry and product exposure.

Detailed information about the operating environment is set out in Note 28 to the Financial Statements

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

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

This has been a year of initial investment and expenditure, necessary for the Bank to set its self up in an appropriate manner, initiate operations and open its doors to the public. Substantial part of this expenditure was applied to finalising works on its premises as well as acquiring and implementing its banking systems and related software licences.

The main financial highlights of the Bank for year 2015 are as follows:

	2015 **€**
Income Statement	
Net interest loss	(2.739)
Loss from operations and Loss before tax	(2.984.864)
Loss for the year after tax	(2.984.864)
Loss per ordinary share in issue (€)	29,55

Key balance sheet figures and ratios	
Customer deposits	4.587.679
Loans and advances to customers (gross)	47.667
Common Equity Tier 1 Capital ratio	381,50%
Total Capital ratio	381,50%
Risk weighted assets	11.837.825

Dividends
In 2015 no dividends were paid or declared by the Bank (2014: €nil).

Existence of Branches
The Bank operates through two Branches, in Nicosia and in Limassol.

Board of Directors
The members of the Company's Board of Directors as at 31 December 2015 and at the date of this report are presented on page 2.

On 16 February 2015, Messrs. Charalambos Panayiotou, Martin Eduard Philip Schenk, Bo. Sievert Larsson, Charidemos Theocharides, and Odysseas Christodoulou were appointed in office.

On 30 April 2015, Mr. Stelios Thrasyvoulou was also appointed in office.

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 2015, 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 other than the Banking Law of Cyprus which requires Central Bank of Cyprus approval prior to the acquiring of shares of the Bank in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

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 25 to the financial statements.

Events after the reporting date
Any significant events that occurred after the reporting date are described in Note 30 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

28 April 2016

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	Note	2015 €	20 August 2013 to 31 December 2014 €
Interest income	4	**1.325**	-
Interest expense	5	**(4.064)**	-
Net interest loss		**(2.739)**	-
Fee and commission income		**97**	-
Fee and commission expense		**(11.249)**	-
Net foreign exchange loss		**(2.368)**	-
Total net expense		**(16.259)**	-
Staff costs	6	**(1.677.478)**	(64.608)
Depreciation and amortisation of property, equipment and intangible assets	14, 15	**(206.067)**	-
Other operating expenses	7	**(1.085.060)**	(309.849)
Loss from operations and loss before tax		**(2.984.864)**	(374.457)
Income tax expense	9	-	-
Loss after tax		**(2.984.864)**	(374.457)
Other comprehensive income		-	-
Total comprehensive loss for the period		**(2.984.864)**	(374.457)

See accompanying notes to the financial statements.

Statement of Financial Position
as at 31 December 2015

	Note	2015 €	2014 €
ASSETS			
Cash and balances with the Central Bank	10	**783.649**	-
Placements with banks	11	**43.269.772**	43.245.000
Loans and advances to customers	12	**47.667**	-
Investments held-to-maturity	13	**3.052.821**	-
Property and equipment	14	**2.695.957**	-
Intangible assets	15	**1.480.744**	614.352
Other assets	16	**502.873**	35.104
Total assets		**51.833.483**	43.894.456
LIABILITIES			
Customer deposits	17	**4.587.679**	-
Other liabilities	18	**604.125**	21.413
Total liabilities		**5.191.804**	21.413
EQUITY			
Share capital	19	**101.000**	89.493
Share premium	19	**49.900.000**	44.158.007
Accumulated losses	20	**(3.359.321)**	(374.457)
Total equity		**46.641.679**	43.873.043
Total liabilities and equity		**51.833.483**	43.894.456

On 28 April 2016 the Board of Directors of Ancoria Bank Limited authorised these financial statements for issue.

Odysseas Christodoulou
Member of the Board of Directors ....

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

Evgenia Christodoulou
Member of the Board and Deputy Chief Executive Officer ....

Christos Papoutsas
Secretary ....

See accompanying notes to the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2015

	Share capital (Note 19)	Share premium (Note 19)	Accumulated losses (Note 20)	Total
	€	€	€	€
Balance at 31 December 2014 / 1 January 2015	89.493	44.158.007	(374.457)	43.873.043
Comprehensive income				
Loss after tax	-	-	(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 as at 31 December 2015	**101.000**	**49.900.000**	**(3.359.321)**	**46.641.679**
Balance at 20 August 2013	-	-	-	-
Comprehensive income				
Loss after tax	-	-	(374.457)	(374.457)
Total comprehensive loss for the period	-	-	(374.457)	(374.457)
Transactions with owners				
Issue of share capital	89.493	44.158.007	-	44.247.500
Total transactions with owners	89.493	44.158.007	-	44.247.500
Balance at 31 December 2014	**89.493**	**44.158.007**	**(374.457)**	**43.873.043**

Share premium is not available for distribution.

See accompanying notes to the financial statements.

Statement of Cash Flows
for the year ended 31 December 2015

	Note	2015 €	20 August 2013 to 31 December 2014 €
Net cash flow from/(used in) operating activities	23	**1.874.556**	(388.148)
Cash flow from investing activities			
Purchase of property, equipment and intangible assets	14,15	**(3.768.416)**	(614.352)
Purchase of investments-held-to-maturity	13	**(3.051.719)**	-
Net cash flows used in investing activities		**(6.820.135)**	(614.352)
Cash flow from financing activities			
Proceeds from issue of share capital	19	**5.753.500**	44.247.500
Net cash flow from financing activities		**5.753.500**	44.247.500
Net increase in cash and cash equivalents for the year / period		**807.921**	43.245.000
Cash and cash equivalents			
At 1 January / 20 August		**43.245.500**	-
Net increase in cash and cash equivalents		**807.921**	43.245.500
At 31 December	24	**44.053.421**	43.245.500

See accompanying 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 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 28 April 2016.

The Bank, which commenced operations in 2015, provides banking and financial 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 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.

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 including (No.4) of 2013.

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

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 on a historical cost basis.

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 21.

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.

2.2. Adoption of new and revised IFRSs

In the current year, the Bank has adopted all the new and revised standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2015. The adoption of these Standards did not have a material effect on the accounting policies of the Bank.

2. Significant accounting policies (continued)

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

Up to the date of approval of the financial statements, the International Accounting Standards Board 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:
Annual Improvements to IFRSs 2012–2014 Cycle (issued on 25 September 2014)	1 January 2016
IAS 1 (Amendments) Disclosure initiative (issued on 18 December 2014)	1 January 2016
Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014)	1 January 2016

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 9 "Financial Instruments" (issued on 24 July 2014)	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"(issued on 28 May 2014) including amendments to IFRS 15 (issued on 11 September 2015)	1 January 2018
IFRS 16 "Leases" (issued on 13 January 2016)	1 January 2019
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016)	1 January 2017
Amendments to IAS 7: "Disclosure Initiative" (issued on 29 January 2016)	1 January 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)	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 for 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 income statement.

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. Additionally, the following recognition criteria should be met prior to any revenue being recognised:

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 (EIR).

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 using the rate of interest used to discount the future cash flows for the purpose of 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 income statement 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 the 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 income statement.

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

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 income statement under foreign exchange gains/losses in the case of currency derivatives and under financial instruments gains/losses in the case of all other derivatives.

Interest income and expense are recognised under their corresponding headings in the income statement.

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 income statement. The embedded derivatives separated from the host are carried at fair value, with any revaluation gain/loss recognised under financial instruments gains/losses in the income statement.

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 gain/loss is recognised under financial instruments gains/losses in the income statement, whilst interest income and expense are included in the corresponding heading in the income statement according to the terms of the relevant contract. In the case of dividend income, this is recognised under other income when the right to receive the dividend has been established.

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 which are managed on a fair value basis.

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 (continued)

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 in the income statement. Interest income and expense are included under the corresponding headings in the income statement according to the terms of the relevant contract, while any dividend income is recognised under other income when the right to receive the dividend has been established.

2.8.5. Held-to-maturity investments

Held-to-maturity investments are those 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 and any losses arising from impairment of such investments are recognised in the income statement. 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 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 income statement under provisions for impairment of loans and advances in the case of loans and advances to customers and under impairment of other financial instruments for all other items.

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. Loans subject to collective impairment assessment whose terms have been renegotiated 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. 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 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 income statement under financial instrument gains/losses.

2. Significant accounting policies (continued)

2.8. Financial Instruments (continued)

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 Statement of Profit or loss in line "Interest expense".

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.

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	Measured at	Gains & losses recognised in
Loans and receivables	Amortised cost using Effective Interest rate method	Profit or loss
Held-to-maturity investments	Amortised cost using Effective Interest method	Profit or loss
At FVTPL	Fair value	Profit or loss
Available-for-sale	Fair value	Other comprehensive income (except for impairment and foreign exchange losses which are recognised in Profit or loss)

2.Significant accounting policies (continued)

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 Company 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, and the difference in the respective carrying amounts is 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.

2.10. 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 and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

Provisions for impairment of loans are determined using the 'incurred loss' model as required by IFRS, which requires recognition of impairment losses that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those events are.

2. Significant accounting policies (continued)

2.10. Impairment of financial assets (continued)

2.10.1. Loans and Receivables (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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.

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

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently 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 through the use of a provision account and the amount of the loss is recognised in the income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. 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 income statement.

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 in the income statement.

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 income statement.

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 income statement – is deducted from the respective revaluation reserve in other comprehensive income and recognised under impairment of other financial instruments in the income statement. Impairment losses on equity securities are not reversed through the income statement. 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 in the income statement.

2.11. Derecognition of financial assets and financial liabilities

<u>A financial asset is derecognised when:</u>

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank has transferred its contractual rights to receive cash flows from the asset, or
- the Bank has assumed an obligation to pay the received cash flows in full to a third party and has either transferred substantially all the risks and rewards of the asset, or has transferred control of the asset without transferring or retaining substantially all the risks sand rewards of the asset.

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

2.12. 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. Significant accounting policies (continued)

2.13. Property and equipment

2.13.1. Freehold land and buildings
Owner-occupied property is property held by the Bank for use in the supply of services or for administrative purposes. It is initially measured at cost and subsequently measured at fair value less accumulated depreciation and impairment. Valuations are carried out periodically between 3 to 5 years, depending on the property, by independent qualified valuators.

Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Gain or losses from revaluations are recognised in other comprehensive income. Useful lives are in the range of 33 to 67 years (or 1,5% to 3,0% depreciation per annum).

Freehold land is not depreciated.

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

2.13.2. 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.

2.13.3. 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).

2.13.4. Computer hardware and operating systems
Computer hardware and systems 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).

At the reporting date, when events or changes in circumstances indicate that the carrying value may not be recovered, property and equipment is assessed for impairment. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

Depreciation shall be calculated by applying rates that ensure redemption of the value of assets during their useful life.

2.14. 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.

2.15. 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

2. Significant accounting policies (continued)

2.15. Impairment of tangible and intangible assets excluding goodwill (continued)

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.

2.16. 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.

2.17. Leases

2.17.1 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.

2.17.2 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 income statement on a straight line basis over the lease term.

2.18. Provisions

2.18.1. Litigation

Provisions for pending litigation or 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. Significant accounting policies (continued)

2.18. Provisions (continued)

2.18.2. Undrawn loan commitments
Provisions are made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

2.19. Financial guarantees
The Bank may issue financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised at fair value in other liabilities. 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 income statement under fee and commission income 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 income statement under provisions for impairment of loans and advances. The balance of the liability for financial guarantees that remains is recognised under fee and commission income in the income statement at the time when the guarantee is fulfilled, cancelled or expired.

2.20. 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.

2.21. Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The comparatives presented in these financial statements cover the period from the date of incorporation (20 August 2013) until 31 December 2014.

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 28 to the Financial Statements, 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. Provision for impairment of loans and advances
The Bank has not made any provisions on loans and advances for the financial year of 2015 as exposures consisted only of employee credit facilities and has been in operation only during the last quarter. The Bank reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement, both on an individual and collective basis. All loans were individually assessed for impairment during 2015.

3. Significant accounting estimates and judgments (continued)

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. 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 impact the amount of depreciation/amortisation charge and carrying amount of assets in the future.

4. Interest income

	2015 €	20 August 2013 to 31 December 2014 €
Loans and advances to customers	**223**	-
Investments held-to-maturity	**1.102**	-
	1.325	-

5. Interest expense

	2015 €	20 August 2013 to 31 December 2014 €
Customer deposits	**4.064**	-
	4.064	-

6. Staff costs

	2015 €	20 August 2013 to 31 December 2014 €
Staff salaries and other remuneration (including directors' fees)	**1.475.227**	57.631
Social insurance and other contributions	**202.251**	6.977
	1.677.478	64.608

The number of persons employed by the Bank as at 31 December 2015 was 57 (2014: 6).

The Bank operated 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 in staff costs. 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. The provident fund was dissolved within 2016, and a pension plan was formed with the assistance of Ancoria Insurance Public Ltd, an indirect shareholder of the Bank.

7. Other operating expenses

	2015 €	20 August 2013 to 31 December 2014 €
Advertising	**40.207**	-
Inland travelling	**9.730**	7.893
Water supply and cleaning	**14.052**	-
Insurance	**2.734**	-
Depositor Protection Scheme Contribution	**50.000**	-
Computer supplies, maintenance & support, and software lease rentals	**343.316**	-
Licences and taxes	**850**	-
Electricity	**15.552**	-
Sundry expenses	**26.723**	2.052
Telephone and postage	**22.127**	-
Courier expenses	**293**	-
Stationery and printing	**16.336**	-
Subscriptions and contributions	**15.925**	-
Non charitable donations	**852**	-
Staff training	**30.924**	1.319
Staff uniforms	**14.413**	-
Auditors' remuneration for the statutory audit of annual accounts	**31.535**	2.380
Legal fees	**44.164**	53.554
Other professional fees	**211.057**	228.929
Overseas travelling	**4.973**	-
Directors' travelling expenses	**1.864**	-
Entertaining expenses	**6.569**	1.443
Rent	**180.864**	-
Incorporation expenses	**-**	11.573
Bank charges	**-**	706
	1.085.060	309.849

8. Loss before tax

Loss before tax is stated after charging the following items:

	2015 €	20 August 2013 to 31 December 2014 €
Directors' fees (Note 27)	**93.896**	8.000
Operating lease rentals for buildings and software	**239.650**	-
Independent auditors' remuneration for audit and other professional services provided to the Bank:		
- Statutory audit of the financial statements of the Bank	**31.535**	1.785
- Tax compliance	**-**	595
- Other non-audit services	**16.958**	-

The above amounts are included in the category "Other operating expenses", except for Directors' emoluments, which is presented in the category "Staff costs" (Note 6).

9. Tax

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

	2015 €	20 August 2013 to 31 December 2014 €
Loss before tax	**(2.984.864)**	(374.457)
Corporation tax based on the applicable rates	**(373.108)**	(46.807)
Tax effect of:		
- Not deductible expenses	**11.426**	34.526
- Allowances and income not subject to tax	**(10.075)**	(180)
- Tax losses for the year	**371.757**	12.461
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 2015 the Bank's tax losses (subject to Inland Revenue assessment) to be carried forward amounted to € 3.072.303.

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 26th July 2013, the special levy for year 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.

As the Bank did not hold any qualifying deposits in the preceding year, no liability for the special levy on credit institutions arose.

10. Cash and balances with the Central Bank

	2015 €	2014 €
Cash	**733.649**	-
Balances with the Central Bank of Cyprus	**50.000**	-
	783.649	-

No obligatory deposits for liquidity purposes were required to be held with the Central Bank of Cyprus for either 2014 and 2015.

The analysis of credit ratings for deposits with the Central Bank of Cyprus by independent rating agencies is presented in Note 25.

11. Placements with banks

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 25. Placements with banks earn interest which is based on the interbank rate of the relevant term and currency. An analysis of placements between local and foreign banks is presented below:

	2015	2014
	€	€
Foreign Banks	**43.110.791**	41.486.928
Local Banks	**158.981**	1.758.072
	43.269.772	43.245.000

The majority of the balance of placements at the end of 2015, was with Skandinaviska Enskilda Banken AB, amounting to €36.418.813 (2014: €41.486.928).

12. Loans and advances to customers

	2015	2014
	€	€
Balance 1 January / 20 August	-	-
Loans granted	**48.800**	-
Interest accrued	**223**	-
Repayments	**(1.356)**	-
Balance 31 December	**47.667**	-

No impairment of loan balances was incurred during the year.

Non-performing loans and advances
On 31 December 2015, no non-performing loans and advances were held by the Bank in accordance with the Directive of the Central Bank of Cyprus, which was applied as of 1st July 2013.

According to the Directive, customer loans and advances are considered non-performing when:
- they present past due balances for a period of more than ninety (90) days,
- they are in excess for a period of more than ninety (90) days,
- they have been restructured and at the time of restructuring were classified as non-performing or presented arrears for a period of more than 60 days (with the exception of loans and advances which on 15th March 2013 were performing, were restructured between 18th March 2013 and 30th September 2013 and the restructuring did not provide for a lump sum payment of 20% or higher of the loan or for a grace period over 12 months for interest or over 24 months for capital),
- they have been restructured twice or more times in an 18 month period (with the exception of loans and advances fully secured with cash).

Loans restructured
No loans have been restructured in 2015, in accordance with the Directive of the Central Bank of Cyprus which applied as of 1st July 2013. Under the Directive, restructuring of a client's facilities covers any action that changes the terms and/or conditions of the client's facilities in order to deal with existing or expected difficulties of the client to service the facilities.

According to the said Directive, a restructured non-performing facility remains classified as non-performing as follows:
- For six months following the commencement of the new amortisation repayment schedule of capital instalments in relation to credit facilities with modifications in their amortisation repayment schedule, while for credit facilities with gradual increase of the instalment amount, the facility remains non-performing for six months following the first month at which the highest instalment is due. Exceptions to the above rules are cases where the modified repayment schedule provides for a lump sum payment on maturity of 20% or higher of the outstanding balance (as at the date of restructuring). For these cases, the facility remains non-performing until its maturity.
- For six months following the restructuring in relation to overdrafts. After the six months, overdraft accounts will be classified as performing only if their credit turnover (excluding credits relating to cheques returned unpaid and credits relating to disbursement of loans) is equal to or higher than the interest charged for the above-mentioned period.

After the lapse of the above-mentioned period for the classification of restructured facilities as non-performing, the facility will be classified as non-performing only if it fulfils the criteria for the classification of non-performing facilities according to the said Directive.

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 income statement. 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.

12. Loans and advances to customers (continued)

Specific provision

The selection criteria for clients which are individually assessed for specific provision and based on the Bank's policy are as follows:

- To groups of connected persons which exceed 3% of the Bank's share capital and reserves
- To shareholders with holdings in excess of 10% of the Bank's share capital and their connected persons
- To non-independent members of the Board of Directors and their connected persons
- Managers of the Bank and their connected persons

Exposures which are identified from the above selection criteria are assessed for impairment if a "trigger event" existed. The following trigger events are set by the Bank:

- Credit facilities that are classified as non-performing in accordance with the Capital Requirements Regulation ("CRR")
- Restructured credit facilities included in performing credit facilities according to the CRR
- Material and persistent decrease in the borrower's income / future cash flows
- Evident deterioration in the borrower's debt servicing ability
- Sizeable decrease in the value of collateral
- Credit facilities already partially provided for
- Credit facilities partially written-off
- Credit facilities with internal credit rating representing high credit risk
- Credit facilities with a significant decline in the internal credit rating
- Credit facilities are overdue for review, in breach of the provisions of the Bank's Credit Risk Policy

For the exposures that are individually assessed for impairment, discounted cash flow (DCF) 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 must be assessed in accordance to the Provisioning Directive 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 also all exposures not individually assessed are included in a pool of exposures with similar characteristics and are assessed for collective impairment using the applicable Probability of Default (PD) and Loss Given Default (LGD) rates that are set in the Bank's provision policy.

Due to the low number of loans as at 31 December 2015, all loans were individually assessed for impairment.

13. Investments held-to-maturity

	2015	2014
	€	€
Issuers:		
Cyprus Government	**3.052.821**	-
	3.052.821	-

	2015	2014
	€	€
Listed in:		
Cyprus stock exchange	**2.499.767**	-
European stock exchanges	**553.054**	-
	3.052.821	-

13. Investments held-to-maturity (continued)

The movement of investments held-to-maturity for the year analysed as follows:

	2015	2014
	€	€
1 January / 20 August	-	-
Purchase of bonds	3.051.719	-
Interest accrued	1.428	-
Amortisation of discount	(326)	-
31 December	**3.052.821**	-

The fair value of investments held-to-maturity as at 31 December 2015 was €3.053.039.

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

14. Property and equipment

Year 2015	Leasehold improvements	Equipment	Furnitures 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 expenditure on the Bank's branches and office premises.

15. Intangible assets

Year 2015	Computer software and licences €
Cost	
1 January	**614.352**
Additions	**999.538**
31 December	**1.613.890**
Amortisation	
1 January	-
Charge for the year	**133.146**
31 December	**133.146**
Net Book Value	**1.480.744**

Year 2014	Computer software and licences €
Cost	
20 August	-
Additions	614.352
31 December	614.352
Amortisation	
20 August	-
Charge for the period	-
31 December	-
Net Book Value	614.352

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 in prior year.

16. Other assets

	2015	2014
	€	€
Receivables from parent company (Note 27)	**36.838**	35.104
Receivables from related companies (Note 27)	**68**	-
Deposits and prepayments	**351.107**	-
Other receivables	**114.860**	-
	502.873	35.104

Deposits and prepayments include an amount of €240.700 relevant to the premises lease agreements.

Other receivables include an amount of €113.804 that relates to receivables from suppliers, which will be remitted by the Bank to the VAT authorities. The corresponding amount is included in the "Other creditors and liabilities" balance in note 18.

17. Customer deposits

	2015	2014
	€	€
Current accounts	**936.825**	-
Savings Deposits	**49.913**	
Fixed term deposit accounts	**3.600.941**	-
	4.587.679	-

18. Other liabilities

	2015	2014
	€	€
Social insurance and other taxes	**46.506**	9.342
Accrued expenses	**34.510**	8.788
VAT	**35.972**	-
Other creditors & liabilities	**487.137**	3.183
Payables to related parties (Note 27)	-	100
	604.125	21.413

19. Share capital and share premium reserve

	2015			2014		
	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 / 20 August 2013	**89.493**	**89.493**	**44.158.007**	-	-	-
Share issue	**11.507**	**11.507**	**5.741.993**	89.493	89.493	44.158.007
31 December	**101.000**	**101.000**	**49.900.000**	**89.493**	**89.493**	**44.158.007**

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.

19. Share capital and share premium reserve (continued)

Issued capital (continued)

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.

20. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2015 and the period from 20 August 2013 to 31 December 2014 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% for 2014 and thereafter 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.

21. Analysis of assets and liabilities by expected maturity

	2015			2014		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and balances with the Central Bank	**783.649**	-	**783.649**	-	-	-
Placements with banks	**43.269.772**	-	**43.269.772**	43.245.000	-	43.245.000
Loans and advances to customers	**9.590**	**38.077**	**47.667**	-	-	-
Investments held-to-maturity	**2.499.767**	**553.054**	**3.052.821**	-	-	-
Property, equipment and intangible assets	-	**4.176.701**	**4.176.701**	-	614.352	614.352
Other assets	**502.873**	-	**502.873**	35.104	-	35.104
	47.065.651	**4.767.832**	**51.833.483**	43.280.104	614.352	43.894.456
Liabilities						
Customer deposits	**4.587.679**	-	**4.587.679**	-	-	-
Other liabilities	**604.125**	-	**604.125**	21.413	-	21.413
	5.191.804	-	**5.191.804**	21.413	-	21.413

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 and their expected collectability.
- Customer deposits and other accounts are classified based on historical behavioural data.
- Other assets and liabilities are classified based on their contractual maturity date.

22. Operating leases

Commitments under non-cancellable operating leases are as follows:

Software licences

	2015	2014
	€	€
Within one year	58.786	-
Between two and five years	176.358	-
Over five years	-	-
	235.144	-

Properties

	2015	2014
	€	€
Within one year	300.000	-
Between two and five years	1.311.400	-
Over five years	1.889.100	-
	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 by the Bank.

23. Net cash flow from/(used in) operating activities

	2015	2014
	€	€
Loss before tax	(2.984.864)	(374.457)
Adjustments:		
Depreciation of property and equipment and amortisation of intangible assets	206.067	-
Interest income	(1.325)	-
	(2.780.122)	(374.457)
Decrease in operating assets:		
Loans and advances to customers	(47.667)	-
Other assets	(468.275)	(35.104)
	(3.296.064)	(409.561)
Increase in operating liabilities:		
Customer deposits	4.587.679	-
Other creditors and liabilities	582.941	21.413
	1.874.556	(388.148)
	1.874.556	(388.148)
Net cash flow from/(used in) operating activities	1.874.556	(388.148)

24. Cash and cash equivalents

	2014	2013
	€	€
Cash and balances with the Central Bank (Note 10)	**783.649**	-
Placements with banks (Note 11)	**43.269.772**	43.245.000
	44.053.421	43.245.000
Less obligatory deposits with the Central Bank	-	-
	44.053.421	43.245.000

No obligatory deposits were required by the Central Bank during 2015. At 31 December 2015, placements with the Central Bank amounted to €50.000.

25. 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 Company 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 Function has the responsibility to evaluate and assess the credit risk of the Bank and the responsibility to manage and control 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 Central Bank of Cyprus directives and adjusts when appropriate, in consultation with the General Management, the lending delegation limits for the various Approval Authorities.

The Risk Management Function evaluates the granting of credit facilities to customers of the Bank under the credit policy and procedures, limits and principles of financing and also 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. Credit risks from connected customer accounts are consolidated and monitored on a single customer group basis.

Loan Origination and Renewal Processes

In September 2013, the Central Bank of Cyprus issued a Directive on Loan Origination and Processes of Reviewing Existing Loans. The provisions of this Directive are applicable to all Authorised Credit Institutions ("ACI") and credit institutions that operate in the Republic under Section 10A of the Business of Credit Institutions Laws of 1997 to (No 4) 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, except for specific cases that are evaluated on a case by case basis and mostly concerning cash collateral lending.

25. Risk management (continued)

Loan Origination and Renewal Processes (continued)

In March 2016 a new Directive was issued by the Central Bank of Cyprus (issued to Credit Institutions on Credit Granting and Review Processes) which the Bank is in the process of implementation.

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, and sends them to the Board of Directors and the Regulatory & Banking Supervision Department of the Central Bank of Cyprus.

Arrears Management Process
In April of 2015, the Central Bank of Cyprus issued the "Directive on Arrears Management" and the "Code of Conduct on the Handling of Borrowers in Financial Difficulties" which set out the framework that all Banks must use when dealing with customers in excesses/arrears or in pre-arrears. It requires Authorised Credit Institutions ("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.

According to the Directive, 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 the warning letter of serious arrears (90 days in arrears) has been sent to him/her and he/she did not carry out the actions specified in that letter and any of the following conditions (i) to (iii) apply:
(i) the borrower does not fully and honestly disclose to the credit institution relevant and material information for restructuring purposes or he/she delays in doing so; or
(ii) the borrower does not communicate with the credit institution within 14 days after they proposed their restructuring plan to him/her; or
(iii) 90 days elapse and the borrower

- has failed to meet his/her loan instalments and he/she does not communicate nor respond to notifications by the credit institution or;
- does not take collaborative steps with the credit institution to develop a restructuring plan.

25. Risk management (continued)

Arrears Management Process (continued)

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 Function 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.

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 other credit enhancements.

	2015	2014
	€	€
Balances with the Central Bank (Note 10)	**50.000**	-
Placements with banks (Note 11)	**43.269.772**	43.245.000
Loans and advances to customers (Note 12)	**47.667**	-
Investments held-to-maturity (Note 13)	**3.052.821**	-
Other assets (Note 16)	**502.873**	35.104
Total on statement of financial position	**46.923.133**	43.280.104
Total credit exposure	**46.923.133**	43.280.104

Credit risk concentration

There are restrictions on credit risk concentrations which are imposed by the Banking Law and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group after taking into account the effect of credit risk reduction techniques as they are defined in the Directive of the Central Bank of Cyprus regarding the calculation of Capital Requirements and Large Exposures.

The Bank has not provided any credit facilities to Board of Directors or main shareholders of the Bank 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. However, until such allocation is fully established the Bank does not meet the 25% large exposure threshold as the majority of own funds is still placed in the corporate account where total initial capital was funded.

As at 31 December 2015, the Bank had no customer groups, who have credit facilities amounting to more than 10% of the Bank's capital base.

Loans and advances as at 31 December 2015, represent loans to individuals.

25. Risk management (continued)

Collateral and other credit enhancements
Loans and advances to customers
As at 31 December 2015, the main types of collateral obtained by the Bank consisted of cash and other tangible assets.

Credit quality of loans and advances to customers

	2015	2014
Performing	**€**	**€**
Neither past due nor impaired	**47.667**	-
Past due but not impaired:		
- Up to 30 days	-	-
- 31 to 60 days	-	-
- 61 to 90 days	-	-
	47.667	-

Non-Performing
No loans have been assessed as non-performing loans as at 31 December 2015.

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

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.

	2015	2014
	€	**€**
Grade 1	-	-
Grade 2	**28.098**	-
Grade 3	**19.569**	-
Grade 4	-	-
Grade 5	-	-
	47.667	

The internal credit rating system uses both qualitative (i.e. occupation, industry etc) and quantitative (i.e. days in arrears, length of credit history etc) information from external sources as the Bank is currently building its customer database. The Bank uses five credit rating bands with Grade 1 indicating a very low credit risk profile while Grade 5 a very high risk profile. Note that facilities given until year end 2015 were all to Bank employees, which might explain a skewed allocation towards low credit risk bands. An improved credit rating including internal customer behaviour data is within the Bank's future plans. The Bank will 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.

Collateral on performing loans and advances
The fair value of collateral held by the Bank in respect of perfoming loans and advances to customers that are past due as at 31 December 2015 amounted to €68.298.

25. Risk management (continued)

Credit ratings from independent rating agencies
Balances with the Central Bank of Cyprus and placements with banks are analysed in accordance with S&P rating agency as follows:

	2015	2014
	€	€
Items in the course of collection		
Aaa – Aa3	43.160.791	-
Caa1 – Caa3	158.981	-
	43.319.772	43.245.000

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

	2015	2014
	€	€
Caa1 – Caa3	3.052.821	-
	3.052.821	-
Issued by:		
Cyprus government	3.052.821	-
	3.052.821	-
Classified as:		
Investments held-to-maturity	3.052.821	-
	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.

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 Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. The Bank's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

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.

25. Risk management (continued)

Liquidity Risk (continued)

The Bank is in the process of developing monitoring tools for Treasury operations in order to manage, amongst others, liquidity risk and cash flows. 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 Assets and Liability Committee (ALCO) reviews the liquidity position on a regular 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 Central Bank of Cyprus 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 (both 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 Central Bank of Cyprus.

Analysis of financial liabilities by remaining contractual maturity:

2015	Carrying amount	Contractual cash flows	On demand and up to one month	Between one and three months	Between three months and one year
Deposits and other customer accounts	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

2014	Carrying amount	Contractual cash flows	On demand and up to one month	Between one and three months	Between three months and one year
Other liabilities	21.413	21.413	21.413	-	-
	21.413	21.413	21.413	-	-

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 Central Bank of Cyprus every quarter, while additional information in relation to liquidity is submitted on a weekly basis. These statements are monitored by Management. The minimum percentage of liquid assets is 20% of total euro deposits while the respective percentage for foreign currencies is 70%.

25. Risk management (continued)

Liquidity Risk (continued)

The liquidity ratio in Euro was as follows:

	2015	2014
	%	%
Average for the year	1.013,33	-
Maximum ratio for the year	1.178,00	-
Minimum ratio for the year	848,66	-

The liquidity ratio in Foreign Currencies was as follows:

	2015	2014
	%	%
Average for the year	-	-
Maximum ratio for the year	-	-
Minimum ratio for the year	-	-

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

Operational risk
Operational risk is the risk that derives from the deficiencies relating to the Bank's information technology and control systems as well as the risk of human error and natural disasters. The Bank's systems are evaluated, maintained and upgraded continuously.

Regulatory risk
The Bank's operations are supervised by the Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework, as well as the regulatory framework of Central Bank of Cyprus. Future changes in the legal or regulatory duties as a result of arrangements either by European Union or Central Bank of Cyprus, 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.

25. Risk management (continued)

Political and other risks (continued)

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.

26. Capital management

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

As from 1 January 2014, the new Basel III Framework known as Capital Requirement Regulation ("CRR") No 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. CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and on 29 May 2014 set the minimum Common Equity Tier 1 capital ratio at 8% (from 9% which applied until then). However, the CBC may also impose additional capital requirements for risks not recognised by Pillar 1 known also as Pillar 2 add-ons.

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 needs relative to their risks with their Internal Capital Adequacy Assessment Process (ICAAP), while at the same time maintaining communication with supervisors on a continuous basis. This procedure is monitored and evaluated by the Central Bank of Cyprus.

26. Capital management (continued)

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

Based on the Central Bank Directive, 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.

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

At 31 December 2015, the Bank fully meets the minimum capital requirements. Specifically, the Common Equity Tier 1 ratio was 349,23%, Tier 1 ratio was 349,23% and the Total Capital ratio was 349,23%.

Capital position as per CRR / CRD IV (continued)

	31 December 2015
Regulatory Capital	
Common Equity Tier 1 capital	**45.160.935**
Additional Tier 1 capital	-
Tier 1 capital	**45.160.935**
Tier 2 capital	-
Total Regulatory Capital	**45.160.935**
Risk weighted assets - credit risk	**11.837.825**
Risk weighted assets - operational risk	-
Risk weighted assets - market risk	-
Total Risk Weighted Assets	**11.837.825**
Capital ratios	
Common Equity Tier 1 ratio	**381,50%**
Tier 1 ratio	**381,50%**
Total capital ratio	**381,50%**
Minimum Ratio as per the CBC Directive:	
Common Equity Tier 1 ratio	**4,5%**

The above analysis was not relevant for 31 December 2014, since banking operations had not commenced until then.

27. 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 2015 and at the date of signing of these financial statements are listed below:

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

As at 31 December 2014:

	Percentage of Share Capital in the parent company %
Mr. Bo Sievert Larsson	30,00
Sievert Larsson Scholarship Foundation	27,28
Ancoria Insurance Ltd	20,00
Other shareholders	22,72
	100,00

Participation of directors in the Company's share capital

The percentage of share capital of the Company 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 2015 and 31 December 2014 were as follows:

Name	31 December 2015 %	31 December 2014 %
Ioannis Loizou	3,40	3,40
Evgenia Christodoulou	0,08	0,08
Bo Sievert Larsson	40,40	30,00
Charidemos Theocharides	0,23	0,45
Odysseas Christodoulou	0,80	0,80

"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 (appointed in office during 2015), indirectly holds 38,41% of the Company's issued share capital.

27. Related party transactions (continued)

	2015 €	2014 €
Deposits:		
- members of the Board of Directors and their related parties	**2.800.334**	-
- key management personel and their related parties	-	-
	2.800.334	-

There are no loans to related parties as at the year end.

The amount above includes deposits from Ancoria Insurance Public Ltd (indirect shareholder) of the amount of €2.241.640.

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.

<u>**Fees and emoluments of Directors and key management personnel**</u>

Directors' emoluments	**2015 €**	2014 €
Member Fees:		
Non executives	93.896	-
Executives	-	-
Total member fees	93.896	-
Executive directors'/ key management personnel emoluments:		
Salaries and other short-term benefits	264.902	**26.306**
Employer's contributions	39.098	**3.295**
Total executive directors' emoluments	304.000	**29.601**
Total Board of Directors emoluments	397.896	**29.601**

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

27.1. Receivables from parent company (Note 16)

Name	**Nature of transactions**	**2015 €**	**2014 €**
Ancoria Investments Plc	Current account balance	**36.838**	35.104
		36.838	35.104

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.

27.2. Receivables from related parties (Note 16)

Name	**2015 €**	**2014 €**
Ancoria Insurance Public Ltd (indirect shareholder)	**68**	-
	68	-

27.3. Payables to related parties (Note 18)

Name/Relationship	**2015 €**	**2014 €**
Ancoria Insurance Public Ltd (indirect shareholder)	-	100
Directors and their related parties	**4.332**	-
	4.332	100

27. Related party transactions (continued)

27.4. Purchases of services

Name	Nature of transactions	2015 €	2014 €
Citius Services Ltd (controlled by a former Director)	Consulting fees	-	107.228
		-	107.228

28. 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 201 which signified the finalisation of the Memorandum of Understanding.

Despite the adverse external economic environment in several European and international economies, the Cyprus economy shows signs of stabilization, evident by the upgrade of the credit rating and the future prospects of the Republic of Cyprus by all major international credit rating agencies. This assisted largely the efforts of the Republic of Cyprus to raise significant capital from international financial markets in the past few months. In addition, the Cypriot banks have been recapitalized and have reorganized their operations, leading to the full abolishment of all restrictive measures on deposits and transactions imposed during 2013.

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 impossible to anticipate or completely guard against.

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.

29. Contingent liabilities, capital commitments and off balance sheet financing

There were no contingent liabilities as at 31 December 2015 and 2014. The Bank's commitments in respect of non cancellable operating leases are presented in Note 22. There were no off balance sheet items as at 31 December 2015.

30. 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 47 and 48.

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Independent Auditor's report

To the Members of Ancoria Bank Limited

Report on the financial statements

We have audited the accompanying financial statements of **Ancoria Bank Limited** (the "Bank") on pages 6-46, which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

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Independent auditor's report (continued)

To the Members of Ancoria Bank Limited

Opinion

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

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank.
- 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 information given in the report of the Board of Directors is consistent with the financial statements.

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 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

Credit risk

In February 2014, the Central Bank of Cyprus issued to credit institutions the Directive on Loan Impairment and Provisioning Procedures of 2014, 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 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*	47.667							
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								
Accomodation and food service activities								
Transportation and storage								
Other sectors								
Households	47.667							
Of which: Residential mortgage loans								
Of which: Credit for consumption	47.667							

Credit Risk (continued)

TABLE B: Analysis of the credit portfolio on the basis of their origination date for balances 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 loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	47.667									47.667		
1 - 2 years												
2 - 3 years												
3 - 5 years												
5 - 7 years												
7 - 10 years												
More than 10 years												
Total	47.667									47.667		

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