# ASTROBANK LIMITED (former Piraeus Bank (Cyprus) Limited)

## Annual Report and financial statements
## 31 December 2016

## Contents

**Board of Directors**

| | |
|---|---|
| Shadi Karam | Independent Non-Executive Chairman |
| Maurice Sehnaoui | Non-Executive Director |
| George Liakopoulos | Independent Non-Executive Director |
| Constantinos St. Loizides | Non-Executive Director |
| Bassam Diab | Non-Executive Director |
| Raoul Nehme | Executive Director & Chairman of the Executive Committee |
| George Appios | Managing Director & Chief Executive Officer |
| Marios A. Savvides | Executive Director, Deputy Chief Executive Officer |
| Socrates Solomides | Independent Non-Executive Director |
| George Kourris | Independent Non-Executive Director |
| Andreas Vassiliou | Independent Non-Executive Director |
| Maria Dionyssiades | Independent Non-Executive Director |

Details over changes in the Board composition are disclosed in Note 37 of the Financial Statements.

**Executive Committee**

| | |
|---|---|
| Raoul Nehme | Executive Director & Chairman of the Executive Committee |
| George Appios | Managing Director & Chief Executive Officer |
| Marios A. Savvides | Deputy Chief Executive Officer |
| Neoclis Neocleous | General Manager |

**Secretary**

Elli Photiadou
1, Spyrou Kyprianou Street
CY-1065 Nicosia
P O Box 25700
CY-1393 Nicosia
Cyprus

**Legal advisors**

Antis Triantafyllides and Sons LLC
Advocates
Capital Center, 9th Floor
2 - 4 Archbishop Makarios III Ave.
P.O. Box 21255
CY-1505 Nicosia
Cyprus

**Independent Auditors**

PricewaterouseCoopers Limited
Julia House
3, Themistocles Dervis Street
CY-1066 Nicosia
Cyprus

**Headquarters/Registered office**

1, Spyrou Kyprianou Street
CY-1065 Nicosia
P O Box 25700
CY-1393 Nicosia
Cyprus

# Management Report

The Board of Directors submits to the shareholders of AstroBank Limited (former Piraeus Bank (Cyprus) Limited) ("the Bank") their Report together with the audited financial statements for the year ended 31 December 2016.

## 1 Principal activities

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

## 2 Branches

The Bank operates in Cyprus through 13 Retail Banking branches (2015: 13), 4 Service Centers for Large Corporate Companies and SMEs (2015: 3), and 2 Service Centers for International Business Services (2015:1).

## 3 Change in shareholding & capital injection

On 8 July 2016, an agreement for the sale and purchase of shares was signed between Piraeus Bank S.A ("the Seller") and Holding M. Sehnaoui SAL ("the Buyer"), a company incorporated in Lebanon. Under this agreement, the Seller agreed to sell shares of Piraeus Bank (Cyprus) Limited to the Buyer and the Buyer agreed to subscribe along with various investors for new shares in the Bank with the Seller agreeing to waive its pre-emption rights. The obligations of the Seller to sell the shares and the obligations of the Buyer to purchase the shares and to subscribe for or procure the subscription of the shares were conditional on the approval of all relevant supervisory authorities. All such approvals were granted on 20th December 2016 and on 28th December 2016. Following a unanimous resolution of the Board, 870.798 shares were sold by Piraeus Bank S.A to Holding M. Sehnaoui SAL ("HMS") and 10.752.689 ordinary shares were issued and allotted, at a price of €3,72 per share to a group of private investors led by Holding M. Sehnaoui SAL.

The movements in share capital and share premium during the year are presented in Note 29 to the financial statements.

## 4 Change of name

On 30th March 2017, the Bank changed its name from Piraeus Bank (Cyprus) Ltd to AstroBank Limited.

## 5 Future developments/prospects

The completion, on 28th December 2016, of the transaction between Piraeus Bank SA and a group of investors led by Holding M. Sehnaoui SAL sees AstroBank enter 2017 with new shareholders, a new Board of Directors, a new name and a reappraisal of its strategic direction. The capital injection of €40m has significantly strengthened capital and liquidity and has enabled the redirection of the primary strategic focus towards growth and profitability through improved customer service, economies of scale, internal reorganization, operational efficiencies and innovation whilst maintaining the key emphasis on the effective management of problematic loans. A transitional services agreement with Piraeus Bank SA, which remains a significant shareholder with 17,6%, ensures the seamless continuation of the Bank's operational capability.

Mr Raoul Nehme, as Chairman of the Executive Committee, will be contributing to the decisions of the Executive Committee for the implementation of the strategy as laid out by the new Board of Directors.

## 6 Results overview

The results of the Bank for the year ended 31 December 2016 are set on Pages 12 and 13.

*Income statement analysis*

Net interest income (NII) for 2016 totaled €23.429.336 (€31.099.726) and net interest margin (NIM) for the year was 2,2% (2015: 2,7%). The NII and NIM reduction primarily reflects the lower yield on liquid assets and competitive pressures on loan yields only partly mitigated by lower deposit costs in the Cyprus market during 2016. Total net non-interest income for 2016 amounted to €10.252.217 (2015:11.866.580) mainly due to lower fee and commission income from the activities of international business customers.

# Management Report (continued)

6 **Results overview (continued)**

In early 2016, the Bank sold Cyprus Government Bonds in order to fully comply with local prudential liquidity requirements and as a result realised a loss of €501.573. On the 2nd of June 2016, the Central Bank of Cyprus granted a waiver to Cypriot banks with regard to the treatment of Cyprus Government securities in the calculation of prudential liquidity ratios in local currency which has since been extended to the end of 2017.

Total expenses for 2016 amounted to €25.032.779, decreased by 8% compared 2015, mainly due to the reduction in staff costs of 9% and a decrease in other expenses of 6%. The decrease in staff costs was mainly due to the cost of Voluntary Redundancy Scheme offered in 2015. The Management of the Bank is committed to reducing the cost to income ratio which remains high, mainly through the increase in total income arising from the expansion in the Bank's operations.

Operating profit before impairment charges and other provisions in 2016 amounted to €8.648.774 compared to €15.738.230 in 2015. Provision charges for the impairment of customer loans and advances for 2016 totaled €16.612.737 compared to €24.353.399 in 2015. The provisioning charge for 2016 represents 2,3% on gross loans. Loss after tax totaled €6.772.860 compared to a loss of €9.334.762 in 2015.

*Statement of Financial Position analysis*

The Bank's total assets amounted to €1.197.006.490 (2015: €1.045.187.351) as at 31 December 2016, increased by 14,5% compared to December 2015.

On 31 December 2016, the Core Equity Tier 1 (CET1) and total capital adequacy ratio of the Bank amounted to 15,2% compared to 9,3% as at the end of 2015 (Note 34).

As at the end of 2016, the Bank maintained healthy liquidity levels, with a euro stock liquidity ratio of 38,7% and a foreign currency stock liquidity ratio of 112,36%, with the regulatory minimums being 20% and 70% respectively.

*Loans*
Gross loans totaled €709.249.323 at 31 December 2016 compared to €780.896.617 at 31 December 2015 (Note 17). The reduction in gross loans of 9% was to a large extent driven by loan repayments and debt for property swaps.

*Deposits*
Customer deposits totaled €1.072.921.427 at 31 December 2016 (2015: €958.525.885), increased by 11,9%, mainly due to increased current account balances of legal entities. They comprised of €868.056.618 deposits in Euro and €204.864.809 deposits in foreign currencies, mostly US Dollars. Customer deposits accounted for 90% of total assets at 31 December 2016 compared to 92% at 31 December 2015.

*Loan Portfolio Quality*
Loans in arrears for more than 90 days (90+ DPD) were reduced by €33.439.336 (11,4% reduction) during the year ended 31 December 2016 to €259.162.960. The decrease was primarily due to the restructuring activity, including debt for property swaps. 90+ DPD loans accounted for 36,5% of gross loans (90+ DPD ratio), compared to 37,5% at 31 December 2015. The provisioning coverage ratio of 90+ DPD loans increased to 59,0% at 31 December 2016 (31 December 2015: 50,5%) as a result of stricter loan provisioning assumptions adopted at the end of 2016.

The rate of reduction in Non-Performing exposures (NPEs) has been lower than that of loans in arrears for more than 90 days due to the strict exit criteria imposed by the Implementing Technical Standards of the European Banking Authority issued in 2014. The level of NPEs has been marginally reduced to €389.859.230, representing 55,0% of gross loans. The provision coverage ratio of NPEs, stood at 39,2% at 31 December 2016, compared to 38,7% at 31 December 2015. If the guarantee issued by PBSA for the amount of €18m in the event of default of a particular debtor (currently classified as NPE) were to be called, the NPE ratio and provision coverage of the Bank at the end of 2016 would be 52,4% (2015:47,5%) and 41,1% (2015:39,9%), respectively.

# Management Report (continued)

## 6 Results overview (continued)

*Loan Portfolio Quality (continued)*

Further details on the Loan portfolio of the Bank are disclosed in Notes 17 and 34 to the Financial Statements.

The table below shows some key indicators of the Bank’s performance for the years ended 31 December 2016 and 31 December 2015:

| Key Performance Indicators | | 2016 | 2015 |
|---|---|---|---|
| **Asset Quality** | 90+ Days Past Due Ratio | 36,5% | 37,5% |
| | 90+ Days Past Due Provision Coverage Ratio | 59,0% | 50,5% |
| | NPE Ratio | 55,0% | 50,0% |
| | NPE Provision Coverage Ratio | 39,2% | 38,7% |
| **Capital** | CET 1 and Total Capital (Transitional) | 15,2% | 9,3% |
| **Efficiency** | Net interest margin | 2,2% | 2,7% |
| | Fee and commission income/Total Income | 20,0% | 17,0% |
| | Cost/ Income | 74,3% | 63,4% |
| **Balance Sheet** | Total assets (€m) | €1.197m | €1.045m |
| | Total Gross Loans (€m) | €709m | €781m |
| | Total Deposits (€m) | €1.073m | €959m |
| **Liquidity** | Liquid assets / Deposits | 51,3% | 36,1% |
| | Net Loans/Deposits | 51,8% | 65,9% |
| | Liquidity Coverage Ratio | 337% | 201,8% |
| **Profitability** | Return on Average Assets | -0,6% | -0,8% |
| | Return on Average Equity | -7,8% | -12,6% |

## 7 Principal risks and uncertainties

The principal risks and uncertainties faced by the Bank are disclosed in Notes 2,3 and 34 of the financial statements. Following a long and relatively deep economic recession, the Cyprus economy began to record positive growth in 2015 which accelerated during 2016. The restrictive measures and capital controls which were in place since March 2013 were lifted in April 2015 and on the back of the strength of the economy’s performance and the strong implementation of required measures and reforms, Cyprus exited its economic adjustment programme in March 2016. During 2016 tourist activity accelerated significantly and residential property prices have started to stabilise.

In recognition of the progress achieved on the fiscal front and the economic recovery, as well as the enactment of the foreclosure and insolvency framework, the international credit rating agencies have proceeded with a number of upgrades of the credit ratings of the Cypriot sovereign, and although the ratings continue to be "non-investment grade", the Cyprus government has regained access to the capital

# Management Report (continued)

## 7 Principal risks and uncertainties (continued)

markets. Downside risks relate to the high levels of non-performing exposures, uncertainties in the property markets, as well as potential deterioration in the external environment for Cyprus, including: continuation of the recession in Russia in conditions of protracted declines in oil prices; weaker than expected growth in the euro area as a result of worsening global economic conditions; slower growth in the UK with a weakening of the pound as a result of uncertainty regarding the outcome of the Brexit negotiations; and the refugee crisis in Europe. Overall, the outlook for the Cyprus economy over the short and medium term is positive.

## 8 Risk Management

Like any other financial institution, the Bank is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and price risk). The Bank monitors and manages these risks through various control mechanisms.

The Bank's risk management programme focuses on the unpredictability of the economic environment in which it operates and seeks to minimise potential adverse effects on the Bank's financial performance. Risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, to monitor risks and to ensure adherence to limits. The risk management policies are reviewed regularly to reflect changes in market conditions and the Bank's activities.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors is assisted in this task by the Risk Committee and the Audit Committee of the Board which assess the adequacy of the risk management framework and the system of internal controls of the Bank.

The nature of the main risks that the Bank is exposed to as well as the Bank's risk management policies are explained in Note 34 of the financial statements.

## 9 Currency Risk

Currency risk is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates. Currency risk arises from a positive or negative open position in a foreign currency, exposing the Bank to changes in the relevant exchange rate. This risk may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trades or even from derivatives. The Bank enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Bank's Treasury department also enters into spot foreign exchange transactions within predefined and approved limits, as well as into derivative product transactions such as foreign exchange forward contracts and foreign exchange swaps.

In order to manage currency risk, the Assets and Liabilities Committee (ALCO) approves total foreign exchange position limits. The approved limits are systematically monitored and reviewed and are assessed at least annually. These limits may be modified, according to the strategy of the Bank and the prevailing market conditions.

## 10 Interest rate risk

Interest rate risk arises as a result of timing differences on the interest rate repricing of financial assets and liabilities. Interest rate risk arises mainly from interest bearing banking assets and liabilities.

At 31 December 2016, the Bank's interest bearing asset and liabilities amounted to €1.109.967.214 and €1.075.159.165 respectively.

# Management Report (continued)

## 11 Credit risk

In the ordinary course of its business the Bank is exposed to credit risk which is monitored through various control mechanisms. Credit risk is the risk of financial loss to the Bank if a customer and/or other counterparty to a financial instrument fail to meet their contractual obligations and arises primarily from the Bank's loans and advances to customers and investment in debt securities. Credit risk management focuses on ensuring a disciplined risk culture, transparency and rational risk taking, based on international common practices.

Credit risk management methodologies are modified to reflect the changing financial environment. The various credit risk assessment methods used are revised annually or whenever deemed necessary and are adjusted according to the Bank's overall strategy and short-term and long-term objectives.

The Bank's credit risk arises from placements at other banks amounting to €421.461.036, loans receivable from customers €556.441.503, loans receivable from subsidiaries €13.701.133, available for sale financial assets €74.074.782, derivative financial instruments €1.068.974, other assets €1.132.971, debt securities €44.288.759 and off balance sheet items (including credit guarantees, letters of guarantee and unutilized credit limits) €75.541.225. The Management of the Bank is confident in its ability to continue to control credit risk.

## 12 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is monitored and controlled by the Treasury Department, Finance Department and Risk Management Department. The conformity with the regulations set by the applicable Supervisory Authorities for liquidity ratios and mismatched maturity ratios both in Euro and in foreign currencies, and with internal limits are monitored on a daily basis. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions without incurring unacceptable losses.

The monitoring and management of liquidity risk is achieved through the use and monitoring of the following:

a. Balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities.
b. Maturity mismatch indices between financial assets and financial liabilities for periods of up to one month.
c. Available liquid assets to customer deposits ratios, in Euro and foreign currencies.
d. Liquidity Coverage Ratio based on EU regulation 2015/61 regarding the coverage requirement of liquidity risk.

During the first three months of 2016, there were periods during which the bank was in breach of local prudential liquidity requirements due to customer deposit withdrawals (in the aftermath of the Greek financial crisis) and to the non-eligibility of the CY Government Bonds and T-Bills (following Cyprus' exit from the Troika programme).

As at 31 December 2016, at the date of this Annual Report and throughout the year, the Bank was in compliance with the required minimum Liquidity Coverage Ratio of the European Central Bank.

## 13 Going concern

The Financial Statements have been prepared on a going concern basis.

Management, taking into consideration the factors and uncertainties that existed at the reporting date, is satisfied that the Bank has the resources to continue in business for the foreseeable future for the following reasons:

- On 31 December 2016 the Bank maintained healthy liquidity levels, and was in compliance with the local protective liquidity requirement and the minimum Liquidity Coverage Ratio of the EU.
- On the 28$^{th}$ of December there was a substantial increase in share capital of €40 million, which can support future growth and boost profitability. The substantial increase in share capital improved significantly the capital adequacy ratio of the Bank.

# Management Report (continued)

14 **Capital Base and Adequacy**

The primary objective of the Bank's capital management is to ensure compliance with the relevant regulatory capital requirements and maintenance of healthy capital adequacy ratios in order to support its growth and maximise the value for its shareholders.

On 31 December 2016, the Bank maintained a capital adequacy ratio at 15,2%. Details of the capital management are disclosed in Note 34 to the Financial statements.

15 **Dividends**

The Board of Directors does not recommend a dividend payment for the year 2016. The loss for the year is transferred to reserves.

16 **Changes in group structure**

The Bank was a wholly owned subsidiary of Piraeus Bank S.A up until the 28th of December 2016.
Following the completion of the transaction between Piraeus Bank SA and the group of investors led by Holding M. Sehnaoui SAL on 28th December 2016, the following shareholders held more than 10% of the issued share capital of the bank:

| | |
|---|---|
| Holding M. Sehnaoui SAL | 17,71% |
| PIRAEUS BANK SA | 17,64% |
| WG Cyprus (Holding) SAL | 12,40% |
| Bassam Diab | 10,63% |

The remaining 11 investors, with shareholdings of less than 10% each, held 41,62% of the Bank's share capital as of that date.

17 **Corporate social responsibility**

AstroBank Limited is committed to contributing to society in general through its active and long standing support of various charitable organisations including Europa Donna, the Cyprus Red Cross, the Cyprus Autism Association and the Cyprus Association of Breastfeeding. The Bank also invests in the development of entrepreneurship by being a strategic partner in the program "Junior Achievement – Entrepreneurship in Education" and also supports various cultural events and environmental protection initiatives for promoting ecological awareness in Cyprus.

18 **Board of Directors**

The Members of the Board of Directors of the Bank at 31 December 2016 and at the date of this Annual Report are shown on page 1.

By a Unanimous written General Assembly Resolution dated 20 January 2017, the following resolutions were approved:

*Board of Directors:*

- Appointment of Mr. Shadi A. Karam as an Independent Director and new Chairman of the Bank
- Appointment of Mr. Maurice Sehnaoui as a Non-Executive Director
- Appointment of Mr. Bassam Diab as a Non-Executive Director
- Appointment of Mr. Raoul Nehme as an Executive Director
- Appointment of Mrs. Maria Dionyssiades as an Independent Director
- Appointment of Mr. George Kourris as the Senior Independent Director
- Accepted the resignation of Mr. Constantinos St. Loizides as the Chairman of the Bank (continues as a non-Executive Director)
- Accepted the resignation of Mr. Takis Klerides (with effect 12 January 2017)

# Management Report (continued)

18 **Board of Directors (continued)**

*Committees:*

- Appointment of Mr. Maurice Sehnaoui as the Chairman of the Nomination and Remuneration Committee replacing Mr. Socrates Solomides
- Appointment of Mr. Shadi A. Karam as the Chairman of the Risk Committee
- Appointment of Mr. George Kourris as the Chairman of the Audit Committee
- Appointment of Mrs. Maria Dionyssiades as an Independent Member of the Audit Committee
- Accepted the resignation Mr. Liakopoulos as a Member of the Nomination and Remuneration Committee
- Accepted the resignation of Mr. Kourris from the Risk Committee
- Accepted the resignation of Mr. Takis Klerides from the Audit Committee

19 **Remuneration of the Board of Directors**

The remuneration of the Board of Directors is disclosed in Note 36 of the Financial Statements.

20 **Related party transactions**

The related party transactions of the Bank are disclosed in Note 36 to the Financial Statements.

21 **Events after the reporting period**

Events after the reporting period are disclosed in Note 37 of the Financial Statements.

22 **Independent Auditors**

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

**By Order of the Board,**

George Appios
Managing Director and Chief Executive Officer

27 April 2017

# Independent Auditor's Report

To the Members of AstroBank Limited (former Piraeus Bank (Cyprus) Ltd)

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of the parent Company AstroBank Limited [former Piraeus Bank (Cyprus) Ltd] (the "Bank"), which are presented in pages 12 to 79 and comprise the statement of financial position as at 31 December 2016, and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank standing alone as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the European Commission's interpretation as described in Note 2; and the requirements of the Cyprus Companies Law, Cap. 113.

### Basis for Opinion

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

### Other information

The Board of Directors is responsible for the other information. The other information comprises the Management Report and Additional Disclosures according to CBC Directive on Loan Impairment & Provisioning Procedures but does not include the financial statements and our auditor's report thereon.

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

*PricewaterhouseCoopers Ltd, PwC Central, 43 Demostheni Severi Avenue, CY-1080 Nicosia*
*P O Box 21612, CY-1591 Nicosia, Cyprus*
*T: +357 - 22 555 000, F:+357 - 22 555 001, www.pwc.com.cy*

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

**Responsibilities of the Board of Directors for the Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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

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

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

## Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.

- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of these books.

- The Bank's financial statements are in agreement with the books of account.

- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.

- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.

- In our opinion, and in the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

## Other Matter

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

Androulla S. Pittas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 27 April 2017

# Income statement
# for the year ended 31 December 2016

| | Note | 2016<br>€ | 2015<br>€ |
|---|---|---|---|
| Interest income | 4 | 34.082.973 | 44.533.605 |
| Interest expense | 5 | (10.653.637) | (13.433.879) |
| **Net interest income** | | **23.429.336** | **31.099.726** |
| | | | |
| Fee and commission income | 6 | 9.132.824 | 9.825.738 |
| Fee and commission expense | 7 | (1.906.938) | (1.984.161) |
| **Net fee and commission income** | | **7.225.886** | **7.841.577** |
| | | | |
| Other income | 8 | 3.527.904 | 3.779.164 |
| Profit on disposal of available for sale financial assets | 30 | - | 245.839 |
| Loss on disposal of debt securities | | (501.573) | - |
| **Operating Income** | | **33.681.553** | **42.966.306** |
| | | | |
| Staff expenses | 9 | (16.885.193) | (18.537.047) |
| Depreciation and amortisation | 10 | (594.966) | (641.172) |
| Operating expenses | 11 | (7.552.620) | (8.049.857) |
| **Profit before provisions** | | **8.648.774** | **15.738.230** |
| | | | |
| Impairment of financial assets available for sale | 18 | - | (545.013) |
| Impairment of property, plant and equipment and other impairments | | (756.971) | (391.865) |
| Write-off of other receivables | | - | (1.187) |
| Provision for impairment of loans and advances | 17 | (16.612.737) | (24.353.399) |
| Other expenses | 12 | (85.019) | (21.876) |
| **Loss before tax** | | **(8.805.953)** | **(9.575.110)** |
| | | | |
| Income tax - credit | 13 | 2.033.093 | 240.348 |
| **Loss for the year** | | **(6.772.860)** | **(9.334.762)** |

The notes on pages 17 to 79 are an integral part of these financial statements.

# Statement of Other comprehensive income for the year ended 31 December 2016

| | Note | 2016 € | 2015 € |
|---|---|---|---|
| **Loss for the year after tax** | | **(6.772.860)** | **(9.334.762)** |
| **Other comprehensive income/ (losses):** | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | |
| Transfer of the reserve due to realised losses on disposal of available for sale financial assets | 30 | - | (245.839) |
| Available for sale financial assets – fair value reserve | 30 | 177.195 | 404.688 |
| **Other comprehensive income for the year after tax** | | **177.195** | **158.849** |
| **Total comprehensive loss for the year** | | **(6.595.665)** | **(9.175.913)** |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 13.

The notes on pages 17 to 79 are an integral part of these financial statements.

# Statement of Financial Position as at 31 December 2016

| | Note | 2016 € | 2015 € |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Banks | 14 | 345.329.285 | 184.628.264 |
| Placements with other banks | 15 | 87.114.624 | 32.699.182 |
| Receivables from debt securities | 16 | 44.288.759 | 36.517.952 |
| Loans and other advances to subsidiaries | 17 | 13.701.133 | 1.333.801 |
| Loans and other advances to customers | 17 | 556.441.503 | 633.176.309 |
| Available for sale financial assets | 18 | 86.278.630 | 103.942.853 |
| Financial assets at fair value through profit or loss | 19 | 11.859.747 | 12.049.250 |
| Derivative financial instruments | 33 | 1.068.974 | 504.379 |
| Investment in subsidiaries | 20 | 54.054 | 56.054 |
| Property, plant and equipment | 22 | 24.085.751 | 25.300.280 |
| Intangible assets | 21 | 189.444 | 218.145 |
| Investment properties | 23 | 17.820.500 | 6.602.650 |
| Tax receivable | | - | 87.420 |
| Deferred tax asset | 27 | 7.641.115 | 5.498.491 |
| Other assets | 24 | 1.132.971 | 2.572.321 |
| **Total assets** | | **1.197.006.490** | **1.045.187.351** |
| | | | |
| **Liabilities** | | | |
| Amounts due to other banks and deposits from banks | 25 | 2.237.738 | 2.090.354 |
| Deposits and other customer accounts | 26 | 1.072.921.427 | 958.525.885 |
| Derivative financial instruments | 33 | 1.547.932 | 130.561 |
| Current tax liability | | 94.245 | 72.166 |
| Deferred tax liability | 27 | 883.393 | 1.064.617 |
| Other liabilities | 28 | 16.338.507 | 13.724.858 |
| **Total liabilities** | | **1.094.023.242** | **975.608.441** |
| | | | |
| **Equity** | | | |
| Share capital | 29 | 14.113.487 | 3.360.798 |
| Share premium | 29 | 187.840.247 | 158.592.933 |
| Other reserves | 30 | 315.057 | 137.862 |
| Accumulated losses | 30 | (99.285.543) | (92.512.683) |
| **Total equity** | | **102.983.248** | **69.578.910** |
| | | | |
| **Total equity and liabilities** | | **1.197.006.490** | **1.045.187.351** |

On 27 April 2017 the Board of Directors of AstroBank Limited approved these financial statements for issue.

George Appios, Managing Director & Chief Executive Officer

Marios Savvides, Director, Deputy Chief Executive Officer

Marina Strovolidou, Chief Financial Officer

The notes on pages 17 to 79 are an integral part of these financial statements

# Statement of changes in equity
# for the year ended 31 December 2016

| | Share Capital | Share Premium | Fair value reserve and other reserves (Note 30) | Accumulated losses (Note 30) | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **2015** | | | | | |
| **Balance at 1st January** | **3.360.798** | **158.592.933** | **(20.987)** | **(83.177.921)** | **78.754.823** |
| **Comprehensive loss** | | | | | |
| Loss for the year | - | - | - | (9.334.762) | 9.334.762) |
| **Other comprehensive income** | | | | | |
| Transfer of realised losses on disposal of available for sale financial assets | - | - | (245.839) | - | (245.839) |
| Revaluation of available for sale financial assets | - | - | 404.688 | - | 404.688 |
| **Comprehensive loss for the year 2015** | - | - | **158.849** | **(9.334.762)** | **(9.175.913)** |
| **Balance as at 31 December 2015** | **3.360.798** | **158.592.933** | **137.862** | **(92.512.683)** | **69.578.910** |
| **2016** | | | | | |
| **Balance at 1st January** | **3.360.798** | **158.592.933** | **137.862** | **(92.512.683)** | **69.578.910** |
| **Comprehensive loss** | | | | | |
| Loss for the year | - | - | - | (6.772.860) | (6.772.860) |
| **Other comprehensive income** | | | | | |
| Revaluation of available for sale financial assets | - | - | 177.195 | - | 177.195 |
| **Comprehensive loss for the year 2016** | - | - | **177.195** | **(6.772.860)** | **(6.595.665)** |
| **Transactions with the owners of the bank** | | | | | |
| **Contributions and distributions** | | | | | |
| Issue of ordinary shares (Note 29) | 10.752.689 | 29.247.314 | - | - | 40.000.003 |
| **Total Contributions and distributions** | 10.752.689 | 29.247.314 | - | - | 40.000.003 |
| **Balance as at 31 December 2016** | 14.113.487 | 187.840.247 | 315.057 | (99.285.543) | 102.983.248 |

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

The notes on pages 17 to 79 are an integral part of these financial statements.

# Statement of cash flows
# for the year ended 31 December 2016

| | Note | 2016 € | 2015 € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | (8.805.953) | (9.575.110) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | 10 | 594.966 | 641.172 |
| Loss/ (Profit) on disposal of financial assets available for sale | | - | (245.839) |
| Loss from disposal of debt securities | | 501.573 | - |
| Impairment of financial assets available for sale | 18 | - | 545.013 |
| Impairment of property, plant & equipment | | 756.971 | 391.865 |
| Gain from disposal of financial assets at fair value through profit and loss | | (61.300) | - |
| Other income | 8 | (2.079.056) | (1.810.123) |
| | | (9.092.799) | (10.053.022) |
| Changes in: | | | |
| Loans and other advances to customers | | 65.884.806 | 56.305.890 |
| Loans and other advances to subsidiaries | | (12.367.332) | - |
| Deposits from and amounts due to other banks and other customer accounts | | 114.542.926 | (274.494.156) |
| Increase in mandatory deposits with the Central Bank of Cyprus | | (20.412.350) | (4.189.770) |
| Other assets | | 1.439.350 | (1.210.608) |
| Net position in derivative financial instruments | | 852.776 | 335.572 |
| Other liabilities | | 2.139.128 | (929.550) |
| **Cash generated from /(used in) operations** | | 142.986.505 | (234.235.644) |
| Tax Paid | | - | - |
| **Net cash generated from /(used in) operations** | | 142.986.505 | (234.235.644) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 22 | (179.729) | (421.763) |
| Purchase of intangible assets | 21 | (112.814) | (121.240) |
| Disposal of financial assets at fair value through profit or loss | | 923.000 | - |
| Disposal of financial assets available for sale - net | 18 | 17.880.246 | 31.998.277 |
| Acquisition of debt securities | 16 | (7.770.807) | (36.517.952) |
| Dividends received | 8 | 977.709 | 1.006.943 |
| **Net cash generated from /(used in) investing activities** | | 11.717.605 | (4.055.735) |
| **Cash flows from financing activities** | | | |
| Capital contribution from shareholders | 29 | 40.000.003 | - |
| **Net cash generated from financing activities** | | 40.000.003 | - |
| **Net (decrease)/ increase in cash and cash equivalents** | | 194.704.113 | (238.291.379) |
| **Cash and cash equivalents at beginning of year** | | 209.389.984 | 447.681.363 |
| **Cash and cash equivalents at end of year** | 31 | 404.094.097 | 209.389.984 |

Non-cash transactions from investing activities

During the year the Bank acquired property for the amount of €10,85m (2015: €5,8m) (Note 23) and financial assets at fair value through profit or loss for the amount of €NIL (2015: €12m) (Note 19) after settlement agreement with customers for loan repayments. These are not included in cash flows from investing activities as they do not constitute cash flow movements.

The notes on pages 17 to 79 are an integral part of these financial statements

# Notes to the financial statements for the year ended 31 December 2016

On 30 April 2017 the Board of Directors of AstroBank Limited (former Piraeus Bank (Cyprus) Limited (the "Bank") authorised for issue the financial statements for the year ended 31 December 2016.

## 1. GENERAL INFORMATION

### Country of incorporation

AstroBank Limited was incorporated in Cyprus as a private limited liability company (Reg. No. HE189515), in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The registered office of the Bank is located at 1, Spyrou Kyprianou Street,CY-1065 Nicosia.

### Licence to carry out banking activities

On 29 November 2007 the Bank was licensed by the Central Bank of Cyprus to carry out banking activities in accordance with the requirements of the Banking Law of 1997. According to the Minimum Reserve Regulations the Bank is required to maintain a deposit in a Minimum Reserve Account with the Central Bank of Cyprus. In addition the Bank is a member of the Depositors' Protection Scheme, which has been founded by and operates under the auspices of the Central Bank of Cyprus.

### Change of name
On the 30th of March 2017, the Bank changed its name from Piraeus Bank (Cyprus) Limited to AstroBank Limited.

### Principal activities

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

### Change of group structure

The Bank was a wholly owned subsidiary of Piraeus Bank S.A up until the 28th of December 2016. Following the completion of the transaction between Piraeus Bank SA and the group of investors led by Holding M. Sehnaoui SAL on 28th December 2016, the following shareholders held more than 10% of the issued share capital of the bank:

| | |
|---|---|
| Holding M. Sehnaoui SAL | 17,71% |
| PIRAEUS BANK SA | 17,64% |
| WG Cyprus (Holding) SAL | 12,40% |
| Bassam Diab | 10,63% |

The remaining 11 investors, with shareholdings of less than 10% each, held 41,62% of the Bank's share capital as of that date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of preparation

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

As at the date of the approval of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as of 1 January 2016 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

# Notes to the financial statements for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation (continued)

The financial statements have been prepared under the historical cost convention as modified by the revaluation at fair value of land and buildings, investment properties, available for sale financial assets, financial assets at fair value through profit or loss and derivative financial instruments.

The preparation of financial statements in conformity with IFRSs requires the use of certain significant accounting estimates and requires Management to exercise its judgment in the process of applying the accounting policies of the Bank. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

*Changes in accounting estimates*
During the year ended 31 December 2016 various changes have occurred with regards to the assumptions adopted for the calculation of provisions for loans and advances which can be regarded as a change in accounting estimates. The change in accounting estimates has an effect in the current period and is expected to have an effect in future periods. The management considered it impractical to calculate the effect of such changes in future periods and as such the effect is not disclosed in the financial statements.

*Consolidation*
The Bank will prepare both separate and consolidated financial statements for the year ended 31 December 2016 to be compliant with IFRS10 and the Cyprus Companies' Law, Cap.113. No consolidated financial statements were prepared for the year ended 31 December 2015 as the Bank was a wholly-owned subsidiary company of Piraeus Bank SA, incorporated in Greece and listed on the Athens Stock Exchange, which prepared consolidated financial statements according to IFRSs for the year ended 31 December 2015.These consolidated financial statements are available to the general public on the website www.piraeusbank.gr.

These financial statements are the separate financial statements of the Bank. At the time of approval of these separate financial statements the Bank has not prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiary companies (the "Group") as required by IFRS 10. The Bank applied an interpretation issued by the European Commission Directorate-General whereby, if a company chooses or is required to prepare its annual accounts in accordance with IFRS as adopted by the EU, it can prepare and file them independently from the preparation and filing of its consolidated accounts. The parent Bank will prepare consolidated financial statements for the Group which will be available at the Bank's registered office, 1 Spyrou Kyprianou Street, Nicosia, Cyprus. The users of these separate financial statements of the parent company should read them in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Bank and the Group. However the use of the separate financial statements alone is not expected to significantly affect the understanding of the users.

*Going Concern*

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

Management, taking into consideration the factors described below, is satisfied that the Bank has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate:

- On 28 December 2016 there was an increase of share capital of €40 million which has enhanced the Bank's liquidity and capital position as well as its growth and profitability prospects,
- On 31 December 2016 the Bank maintained healthy liquidity levels, with a euro liquidity ratio of 38,7% and a foreign currency liquidity ratio at 112,4%, well above the regulatory minimums being 20% and 70% respectively,
- On 31 December 2016 the Bank significantly strengthened and tightened its provisioning policy criteria leading to a more prudent approach,
- On 31 December 2016 the Bank maintained a capital adequacy ratio at 15,2%,
- The regular monitoring of the performance of the Bank against business plans and targets,
- The diversity as well as the improving credit rating of the liquid assets held,

# Notes to the financial statements for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Going Concern (continued)*

- The improvement in the macro-economic environment as reflected by the series of upgrades of Cyprus by the international credit rating agencies. Fitch Ratings upgraded the rating of the Republic of Cyprus one notch to BB- with a positive outlook in October 2016, S&P Global Rating by one notch to BB with a positive outlook in September 2016 and by one notch to BB+ with a stable outlook in March 2017 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015. In November 2016 Moody's Investors Service improved the outlook on the Republic of Cyprus from stable to positive.

The Bank's Management believes that the Bank is taking all necessary measures to maintain its viability and the development of its business in the current economic environment, therefore these financial statements have been prepared on the basis of going concern.

**Adoption of new and revised IFRSs**

During the current year the Bank adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. This adoption did not have a material effect on the accounting policies of the Bank.

As at the date of approval of these financial statements, the following financial reporting standards have been issued by the International Accounting Standards Boards but have not yet been effective:

**(i) Adopted by the European Union**

**Amendments**
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (effective for the periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for the periods beginning on or after 1 January 2016).
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)
- Annual improvements to IFRS 2014 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS10, IFRS 12 and IAS28 – Investment entities: Applying the consolidation exception (effective for annual periods beginning on or after 1 January 2016)
- Disclosure Initiative Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016)

**(ii) Not adopted by the European Union**

**New standards**
- IFRS 9 "Financial Instruments" (and subsequent amendments to IFRS 9 and IFRS 7) (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)
- IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 4- Applying IFRS 9 financial instruments with IFRS 4 insurance contracts (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IAS 40 – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018)
- IFRIC 22 – Foreign currency transactions and advance consideration (effective for annual periods beginning on or after 1 January 2018)
- Annual improvements to IFRSs 2014-2016 Cycle - Amendments to IFRS 1 – First time adoption of IFRSs and IAS28 Investments in associates and Joint ventures (effective for annual periods beginning on or after 1 January 2018)
- Annual improvements to IFRSs 2014-2016 Cycle - Amendments to IFRS 12 -Disclosure of interests in Other entities (effective for annual periods beginning on or after 1 January 2017)
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017)
- Disclosure Initiative Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017)

# Notes to the financial statements
# for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Adoption of new and revised IFRSs (continued)

### (ii) Not adopted by the European Union (continued)

### New standards (continued)

The Board of Directors expects that the adoption of these amendments and new standards of financial reporting will not have significant effect on the financial statements of the Bank, except of the following:

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

  i. Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

  ii. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

  iii. Investments in equity instruments are always measured at fair value. However, Management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

  iv. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  v. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

  vi. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the above standard on its financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency translation

a. Functional and presentation currency

The financial statements of the Bank are presented in Euro (functional and presentation currency), which is the currency of the primary economic environment in which the Bank operates.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement (in other income).

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount. Translation differences related to changes in the amortised cost are recognised in profit or loss (in other income), and other changes in the carrying amount except impairments are recognised in other comprehensive income.

Transaction differences on non-monetary financial investments, such as equities classified as available for sale financial assets are included in other comprehensive income.

### Turnover

Bank's turnover comprises of income generated from banking activities such as interest income and other income such as gain on disposal of investment properties.

### Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing assets and liabilities on an accrual basis using the effective interest method. Interest income includes interest earned on loans and advances, available-for-sale financial assets, financial assets at fair value through profit or loss as well as the amortisation of discount and premium on government bonds and treasury bills and other financial instruments.

Income or expenses on transactions related to the creation of financial instruments, measured at amortised cost, such as loans, are deferred and amortised over their useful lives based on the effective interest rate. These income and expenses are included in interest income in the income statement. Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original effective interest rate.

### Fee and commission income and expense

Fees and commission income and expense are generally recognised in the year when the service has been provided to the clients or to the Bank respectively. Fee and commission income and expense relate to loans and advances, credit cards, letters of guarantee documentary, credits and transfers of money and other banking services.

### Income from the disposal of investment property

Net gains on disposal of investment property are recognised in the profit or loss when the buyer accepts ownership of the property and the transfer of risks and rewards to the buyer is completed.

### Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

# Notes to the financial statements
# for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Current and deferred income tax(continued)

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

### Special Levy

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

### Subsidiaries

Subsidiaries are all entities controlled by the Bank. The Bank controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are recognised at historical cost less impairment in these separate financial statements. Investments in subsidiaries are assessed for impairment to the value when events or changes in circumstances suggest that the carrying value may not be recoverable. Impairment loss is recognised in the income statement at the amount for which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset. Impairment loss recognised in prior years is reversed when there is a change in the conditions and assumptions used for the calculation of the recoverable amount.

### Derivative Financial Instruments

The derivative financial instruments that the Bank trades in are mainly forward contracts and foreign currency swaps.

Derivative financial products are initially measured at fair value at the date of recording the contract and then are measured daily at fair value. Fair value is determined using the market values or, when market values are not readily available, using valuation models. Changes in the fair value of the derivatives which are designated for trade are presented in other income. When the fair value is positive, derivatives constitute part of the assets and when is negative constitute part of the liabilities.

### Financial assets

The Bank initially recognises financial assets on the date at which they are originated.

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

# Notes to the financial statements for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

A. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets that have been acquired for profit through short-term fluctuations in prices, and those designated at fair value through profit or loss at inception.

Financial assets at fair value through profit or loss are initially recognised at fair value and are then presented at fair value. Initial transaction costs are debited in the income statement.

Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy. Information about these financial assets is provided internally on a fair value basis to the Bank's key management personnel.

Realised gains/losses from the sale of financial assets at fair value through profit or loss, as well as unrealised gains and losses from their measurement at fair value, are included in other income.

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. The Bank derecognises the financial assets from the financial statements when it loses control on the rights of these investments. The control of the rights is lost when the investment is sold, expired or written off or all the related cash flows from the investments have been transferred to a third party. Interest on the bonds held in the trading portfolio is included in Interest income.

B. Available for sale financial assets

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified under another category of financial assets. Available for sale investments may be held for an undetermined period of time or may be sold in response to changes in market risks or liquidity requirements.

Available for sale financial assets are initially recognised at fair value (including transaction costs) and are subsequently measured at fair value based on the current prices, or when those are not readily available the value as per the valuation models as per the provisions of IAS 39. They are included in non-current assets, unless Management intends to dispose of the investments within twelve months from the balance sheet date.

Unrealised gains or losses from the variation in fair value of available for sale financial assets are included in a special reserve in equity. On the sale of available for sale financial assets the relevant accumulated gains/losses are transferred from the reserve to the income statement. Available for sale financial assets are derecognised when the cash flows from the investments are no longer collectable or the Bank has transferred a substantial part of the risk and rewards to third parties.

In the case of equity titles classified as available for sale, a significant or a prolonged reduction in the fair value of the share less than its cost, constitutes objective evidence that its value has been impaired. If there are such objective evidence for financial assets available for sale, the accumulated loss which is determined as the difference between the cost of purchase and the current fair value, less the impairment of the asset previously recognised, is transferred in equity and recognised in income statement. If, at a subsequent period, the fair value of a debt title classified as available for sale, increase and the increase can objectively be associated with a fact that happened after the recognition of the impairment loss in the income statement, the impairment loss is reversed through the income statement.

Interest and dividends on financial assets held in this portfolio are recognised in the respective categories in the Income Statement.

# Notes to the financial statements
# for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets (continued)**

B. Available for sale financial assets (continued)

Changes in the fair value of monetary securities denominated in foreign currency and classified as available for sale are analysed between exchange differences resulting from changes in amortised cost and other changes in the carrying amount of the security. The exchange differences on monetary securities are recognised in the Income Statement, whereas exchange differences in non-monetary securities in Other Comprehensive Income. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in Other Comprehensive Income.

C. Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The Bank's loans and receivables comprise trade and other receivables, other assets, receivables from debt securities and cash and cash equivalents in the statement of financial position.

Loans and advances granted by the Bank are initially recognised at fair value, plus any incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. If there is objective evidence that the Bank will not be able to collect all or part of the amount due, according to the original term of the loan, a provision for impairment is established. The amount of the accumulated provision is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan.

In the case of a provision being made for the impairment of a loan, the income from interest continues to be recognised based on the original effective interest rate of the loan, on the amount for which no provision has been made (recoverable amount), as per the guidance of IAS 39.

If in a future period the amount of the provision is reduced and the reduction is due to objective events that took place after the provision was recognised, for example an improvement in the credit condition of a debtor, then the provision is reduced and the difference is recognised in the income statement.

A receivable is subject to impairment when its carrying amount is greater than the expected recoverable amount. The term “receivable” includes loans and advances, letters of guarantee and letters of credit.

The Bank assesses at each reporting date whether there is objective evidence that a receivable or group of receivables may have been impaired. If such evidence exists, the recoverable amount of the receivable or group of receivables is estimated and a provision for impairment is recognised. The amount of the provision is recognised in the income statement.

The Bank has defined policies and procedures for loan impairment and provisioning which are in line with Impairment and Provisioning Procedures Directives issued by Central Bank of Cyprus.

The Bank initially assesses whether objective evidence of impairment exists on an individual basis for advances that the Bank considers significant. Advances that have been assessed on an individual debtor level and for which no objective evidence of impairment exists, significant or otherwise, are classified in groups with similar credit risk characteristics and collectively assessed for losses incurred but not yet reported.

The Bank assesses on an individual basis all the loans handled by the Recoveries Department and the Arrears Management Unit. It also examines all significant corporate loans as well as all the advances of any borrower with aggregate outstanding balance greater that the defined limit of significance, provided that there are indications of impairment. The significance threshold is set bearing in mind the need to accurately calculate loan provisions.

# Notes to the financial statements for the year ended 31 December 2016

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

**Financial assets (continued)**

C. Loans and other receivables (continued)

Objective evidence that a receivable group of receivables has been impaired or it is not recoverable includes the following:

I. Significant financial difficulties faced by the debtor.

II. A breach of the terms of the loan contract (i.e. default or delinquency in interest or principal payments).

III. The Bank, for financial or legal reasons relating to the debtor's financial difficulties, granting the debtor a concession that the Bank would not consider under different circumstances.

IV. It is probable that the debtor will enter bankruptcy or financial reorganisation.

V. Observable data indicating that, from the date of initial recognition of those loans, there is a measurable decrease in the estimated future cash flows from a group of loans, although the decrease cannot yet be identified by examining each individual loan in the group separately, including:

- Adverse changes in the payment status on the balance of the group of loans (e.g. increase in the number of past due payments due to sector problems), or

- Economic conditions on a national or local scale that correlate with delays in the payments of loans within the group of loans (e.g. increase in the unemployment rate within a geographical area, decrease in the value of property placed as collateral in the same geographical area, or unfavourable changes in the operating conditions of a sector, which affect the debtors included in a specific group).

For the purposes of an impairment assessment on a collective basis, advances are grouped based on their credit risk characteristics. The Bank adopts a standardised approach for collective impairment by using probabilities of default based on historical data and past experience. This methodology is subject to uncertainty due to the subjective grouping of loans and advances into portfolios with similar credit risk characteristics. In addition, the historical information is supplemented by estimates from the Management, in order for the past experience to be representative of current economic conditions. When there are changes in the economic or supervisory environment or changes in customer behaviour, the latest trends in the risk factors regarding the portfolio are not reflected fully. In these cases, the past experience is adjusted so as to take into account the recent risk factors.

When a loan is uncollectible, it is written off against the related provision for impairment, as long as such a provision exists. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Loans and other receivables are written off when either the ability to receive cash flows has ceased or the Bank has transferred substantially all the risks and rewards to third parties.

# Notes to the financial statements for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the activities acquired at the date of acquisition. Separately recognised goodwill is tested annually for impairment and whenever there are indications for impairment, it is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit the business combinations in which the goodwill arose.

**Software and other intangible assets**

An intangible asset is recognised when it is probable that future economic benefits will arise through its use. Included in the cost of the intangible asset are any direct costs that are necessary for the creation, production and preparation of the intangible asset for proper use. Such costs are:

- Staff costs which are identifiable and can be directly attributed to the specific intangible asset.
- External associates' fees that relate to the creation of the intangible asset.

The acquisition cost of software which will generate future economic benefits for the Bank is recognised as an intangible asset. Costs associated with maintenance of computer software are charged to the income statement of the year in which they were incurred. On the contrary, expenditure which enhances or extends the performance of computer software beyond their original technical specifications or software conversion costs are added to the original acquisition cost of the intangible only if they can be reliably measured. In most cases, computer software is amortised over 3 years.

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.

Useful economic lives of the intangible assets are reviewed and, if appropriate, adjusted at each balance sheet date.

**Impairment of non-financial assets**

Intangibles that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment or more frequently if events and changes in circumstances indicate that they might be impaired. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

# Notes to the financial statements
# for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Land and buildings are shown at fair value, based on periodic valuations by external independent professional valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value determined at the balance sheet date. All other property, plant and equipment items are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount exceeds the recoverable amount then the property, plant and equipment items are written down to their recoverable amount. The recoverable amount is the higher of fair value of the assets less cost to sell and its value in use.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other property, plant and equipment is calculated using the straight-line method, over their estimated useful lives. The annual depreciation rates are as follows:

- Buildings 2%
- Leasehold improvements 3%
- Furniture, fitting and equipment 10%-20%

The residual values and useful lives of the tangible assets are reviewed and adjusted, if appropriate, at each reporting date. Any gains or losses on disposals of property, plant and equipment are included in the income statement and are determined by the difference between the selling price and the carrying amount. When revalued assets are disposed, the amounts included in the fair value reserves are transferred to retained earnings/accumulated losses.

### Investment property

Investment property comprises land and buildings that are not occupied for use by, or in the operations of, the Bank, nor for sale in the ordinary course of business, but are held primarily for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss. Valuations are carried out by independent qualified valuers applying valuation models recommended by the International Valuation Standards Council.

When the use of the property changes such that it is reclassified as property and equipment, its fair value at the date of reclassifications becomes its cost for subsequent reporting.

Investment properties held under operating leases are classified as investment properties in the balance sheet. The rental income arising from operating leases are recognised on a straight-line basis over the duration of the lease.

# Notes to the financial statements for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Operating leases

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

### Mandatory cash balances with Central Bank (minimum reserve account)

The mandatory cash balances with the Central Bank are carried at amortised cost and are not available for financing the daily operations of the Bank, and as a result, are not considered part of cash and cash equivalents for the purposes of the cash flow statement

### Cash and cash equivalents

Cash and cash equivalents comprise balances with maturity of less than three months since acquired. Specifically they include cash on hand, deposits with other banks and other placements with maturities of less than three months.

### Financial liabilities

The financial liabilities of the Bank are financial liabilities measured at amortised cost. Financial liabilities are written off when they are expired.

The financial liabilities measured at amortised cost consist of customer or other banks deposits, subordinated loan and other financial liabilities.

### Due to Banks and customers

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

### Provisions

Provisions in respect of restructuring expenses and legal obligations are recognised when: a) the Bank has a present legal or constructive obligation as a result of past events, b) it is probable that an outflow of resources will be required to settle the obligation and c) the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there is number of similar obligations, the probability that an outflow will be required to settle the obligation is determined by taking into consideration the classification of the obligations as a total. The provision is included even if the probability of an outflow due to an obligation included within the total obligations is small.

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

### Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specific payments in order to reimburse the holder for a loss incurred due to a specific debtor failing to make payments when due, in accordance with the terms of a credit instrument. As part of the services provided to its customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

# Notes to the financial statements for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial guarantee contracts (continued)

Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall credit risk exposure of the Bank (Note 34).

When these commitments/contingencies are crystalised creating a liability to the Bank, the relating impact is recognized in the profit or loss.

### Employee Benefits

The Bank operates various pension plans. The Bank operates a defined contributions pension plan and in the past it operated a defined benefits pension plan which was terminated in 2012. A defined contributions plan is a pension plan under which the Bank and its employees pay fixed contributions into a separate fund. The Bank's contributions are recognised in the period they relate to and are included in staff costs. For a defined contributions plan the Bank has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits that correspond to their service in the current and prior periods.

Contributions are recognised as staff retirement expenditure in the period in which they are due. Prepaid contributions are recognised as an asset to the extent there will be cash refund or reduction in the future payments.

The Bank and the employees contribute to the Government Social Insurance Fund based on employees' salaries in accordance with legal requirements.

### Share capital

a) Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium.

b) Share premium is the difference between the fair value of the consideration receivable for the issue of the shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

c) The dividend distribution to the Bank's ordinary shareholders is recognised as a liability in the period in which the dividend is approved by the Annual General Meeting of the Bank's shareholders or, in the case of an interim dividend, by the Bank's Board of Directors.

### Related party transactions

Relates parties include: (a) members of the Bank's Board of Directors and key management personnel of the Bank, (b) close family members (spouses, children etc.) and financial dependants of the Board of Directors' members and key management personnel and (c) companies that carry out transactions with Piraeus Bank (parent Bank until the 28th December 2016), while the total cumulative participating interest in them (by members of Board of Directors, key management personnel and their dependants or close family members) exceeds 20%. Transactions of a similar nature are disclosed collectively. All related party transactions are based on ordinary business practices and are carried out according to the approved credit procedures and policies of the Bank.

### Trade payables

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

# Notes to the financial statements
# for the year ended 31 December 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Offsetting financial instruments**

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

**Comparatives**

Where necessary, comparative figures of the previous period have been adjusted to conform with changes in presentation in the current year.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent obligations and liabilities at balance sheet date and the reported amounts of income and expenses during the year of reporting. Despite the fact that these assumptions are based on the best possible knowledge of the Bank's Management regarding current conditions and activities, actual results may eventually differ from those estimates.

Accounting estimates and judgments are reviewed and evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The assessment of these factors determine the basis under which judgement is being applied in connection with accounting principles affecting the value of assets and liabilities which are not immediately apparent from other sources.

<u>Critical accounting estimates and assumptions</u>

***Provision for impairment of loans and advances to customers***

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

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the restructuring agreement.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available published property price indices (CBC index for houses, apartments and land, RICS indices for commercial properties and shops). For all real estate collaterals, liquidation haircuts of 10%-30% were applied to the indexed open market values (2015: 0% to 20%). The time to liquidation of real estate collaterals, other than those for which an explicit date was assumed based on the facts of the case, is 6 years (2015: 4 years). Selling costs are assumed to be on average 5% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values.

# Notes to the financial statements for the year ended 31 December 2016

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical accounting estimates and assumptions (continued)

***Provision for impairment of loans and advances to customers (continued)***

For significant loans and advances which are individually assessed, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Bank's position relative to other claimants and the likely cost and duration of the work-out process). Advances that have been assessed on an individual debtor level and for which no objective evidence of impairment exists, significant or otherwise, are grouped with non-significant advances and are classified in groups with similar credit risk characteristics in order to be collectively assessed for losses incurred but not yet reported.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances. The assessment of credit risk is continuous. The methodology and assumptions used to calculate the provisions are reviewed regularly in order to reduce differences between estimated losses and actual losses.

If the recoverable amounts of loans individually tested for impairment were reduced by 10%, the after tax effect on the income statement would be an additional charge of €19.754 thousand (2015: €17.808 thousand) less any subsequent decrease in collective provisions.

***Fair value of bonds, shares and other financial instruments***

The best evidence of fair value is a quoted price in an actively traded market. The fair value of bonds, shares and other financial instruments that are not traded in an active market is determined by using valuation techniques. The majority of valuation techniques employed by the Bank use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

More information on changes in the fair value of bonds, shares and other financial instruments is disclosed in Notes 18 and 34.

***Deferred tax asset***

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

If the expected income over the next 5 years according to the business plan of the Bank was reduced by 10% (with all remaining factors remaining the same – ceteris paribus) the recoverable balance of the deferred tax asset as at 31 December 2016 would be reduced by €199 thousand.

# Notes to the financial statements for the year ended 31 December 2016

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

***Income taxes***

Significant estimates are required in determining the provision for income tax. For specific transactions and calculations the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax issues based on estimates of whether additional taxes may become due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the current tax and deferred tax provisions in the affected period.

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

***Fair value of building held for own use and investment properties***

The Bank's accounting policy for property held for own use, as well as for investment property requires that it is measured at fair value at each balance sheet date. Valuations are carried out periodically so as to ensure that the carrying value is not materially different from the fair value. Valuations are carried out by independent qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

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

If the estimated value per square meter used in the calculations for the building held for own use was reduced by 15% the value of the building would be €3,0m (2015: €3,3m) lower.

If the estimated value per square meter used in the calculations for investment properties was reduced by 15% the value of the building would have been €2,3m lower.

More information on inputs used is disclosed in Notes 22 and 23.

# Notes to the financial statements for the year ended 31 December 2016

## 4. INTEREST INCOME

| | 2016 € | 2015 € |
|---|---|---|
| Interest on loans and other advances to customers | 17.159.053 | 28.697.500 |
| Interest on impaired loans and advances to customers | 15.723.061 | 13.479.983 |
| Interest on placements with Central Bank and other banks | (692.553) | 1.352.133 |
| Interest on debt securities | 651.085 | 640.031 |
| Interest on available for sale financial assets (Note 18) | (83.138) | (152.848) |
| Interest on swap deals | 1.310.988 | 506.988 |
| Other interest | 14.477 | 9.818 |
| **Total** | **34.082.973** | **44.533.605** |

## 5. INTEREST EXPENSE

| | 2016 € | 2015 € |
|---|---|---|
| Interest on deposits from customers | 10.649.266 | 13.425.927 |
| Interest due to other banks | 4.371 | 7.952 |
| **Total** | **10.653.637** | **13.433.879** |

## 6. FEE AND COMMISSION INCOME

| | 2016 € | 2015 € |
|---|---|---|
| Fees and commissions from commercial banking | 8.941.874 | 9.533.086 |
| Other fees and commissions | 190.950 | 292.652 |
| **Total** | **9.132.824** | **9.825.738** |

## 7. FEE AND COMMISSION EXPENSE

| | 2016 € | 2015 € |
|---|---|---|
| Fees and commissions from commercial banking | 1.853.239 | 1.934.440 |
| Other fees and commissions | 53.699 | 49.721 |
| **Total** | **1.906.938** | **1.984.161** |

## 8. OTHER INCOME

| | 2016 € | 2015 € |
|---|---|---|
| Gain on revaluation of investment properties (Note 23) | 367.850 | 802.650 |
| Gain on revaluation of other investments at fair value through profit or loss (Note 19) | 733.497 | - |
| Gain on disposal of debt securities | - | 530 |
| Gains from foreign exchange trading | 1.307.236 | 1.628.323 |
| Dividend from available for sale financial assets (Note 18) | 777.709 | 606.943 |
| Dividend from investment in subsidiaries | 200.000 | 400.000 |
| Gain from disposal of financial asset at fair value through profit or loss (Note 19) | 61.300 | - |
| Other income | 80.312 | 340.718 |
| **Total** | **3.527.904** | **3.779.164** |

# Notes to the financial statements for the year ended 31 December 2016

## 9. STAFF EXPENSES

| | 2016 € | 2015 € |
|---|---|---|
| Salaries and employer's contributions | 14.518.779 | 15.070.360 |
| Social Insurance contributions | 944.331 | 934.520 |
| Retirement benefit cost for defined contributions plans | 1.204.913 | 1.137.319 |
| Voluntary redundancy costs | - | 1.306.798 |
| Other staff expenses | 217.170 | 88.050 |
| **Total** | **16.885.193** | **18.537.047** |
| *Average number of employees* | *350* | *333* |

Based on the agreement signed on March 17th 2014 between the Cyprus Bankers Employer's Association and the Union of Bank Employees Cyprus regarding the three years 2014-2016, the Bank proceeded with a reduction in the monthly contribution to the Provident Fund from 14% to 9% for the years 2014 and 2015 and to 9,5% for 2016.

Following the decision of the Board of Directors on 27 March 2015 the Bank offered to its permanent staff the Early Retirement Scheme which was in the form of voluntary redundancy. The amount of €1,3m was paid to staff members who accepted the Early Retirement Scheme.

## 10. DEPRECIATION AND AMORTISATION

| | 2016 € | 2015 € |
|---|---|---|
| Depreciation of property, plant and equipment (Note 22) | 454.107 | 451.680 |
| Amortisation of intangible assets (Note 21) | 140.859 | 189.492 |
| **Total** | **594.966** | **641.172** |

## 11. OPERATING EXPENSES – Analysis by nature

| | 2016 € | 2015 € |
|---|---|---|
| Sales and marketing expenses | 697.557 | 526.268 |
| Legal expenses and other consultancy fees | 1.288.503 | 1.517.925 |
| Auditors' remuneration | 102.340 | 117.640 |
| Buildings and other assets' maintenance cost | 1.053.139 | 871.685 |
| Operating lease rentals | 663.348 | 718.635 |
| Travelling expenses | 209.637 | 159.652 |
| Printing and stationery | 247.837 | 295.248 |
| Telecommunication expenses | 259.386 | 261.124 |
| Special levy (1) | 1.514.402 | 1.748.108 |
| Other operating expenses | 1.516.471 | 1.833.572 |
| **Total** | **7.552.620** | **8.049.857** |

# Notes to the financial statements for the year ended 31 December 2016

## 11. OPERATING EXPENSES – Analysis by nature (continued)

The "Legal expenses and other consultancy fees" include fees of €39.157(2015: €30.645 ) for tax consultancy services and €19.046 (2015: €3.108) for other assurance services charged by the Bank's statutory audit firm.

(1) Until 30 September 2015, Special tax levy of 0,15% was imposed on the deposits of credit institutions as at 31st December of the previous year. Based on a new amendment of the law which was published in the official newspaper of the Republic on 7 December 2015, the Special tax levy is calculated on a 3-month basis at a rate of 0,0375% on 31st December, 31st March, 30th June and 30th September of the year on the deposits of credit institutions at the beginning of the quarterly periods.

## 12. OTHER EXPENSES

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Provisions for impairments of other receivables | 73.871 | - |
| Provisions for impairments of off balance sheet receivables | 11.148 | 21.876 |
| | **85.019** | **21.876** |

## 13. INCOME TAX

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| **Current year tax** | | |
| Corporation Tax | 109.531 | - |
| Deferred tax (Note 27) | (2.142.624) | (240.348) |
| **Total current year tax** | **(2.033.093)** | **(240.348)** |

None of the items in the Statement of Other comprehensive income had an impact on the tax charge for 2016 or 2015.

The Bank is subject to corporation tax on taxable profits at the rate of 12,5% (2015: 12,5%).

As from tax year 2012 brought forward losses of only five years may be utilised. The recognition of deferred tax asset on unused tax losses is based on management's predictions and evaluations of currently available information as well as sensitivity analyses performed regarding the future growth rate of loans, deposits, financing developments, the percentage of impairment of loans and profitability, as well as taking into consideration the probability of recovering the deferred tax asset before their expiration date.

Up to 31 December 2008, under certain conditions, interest was potentially subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest was exempt from income tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%, increased to 15% as from 31 August 2011 and to 30% as from 29 April 2013.

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

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

# Notes to the financial statements for the year ended 31 December 2016

## 13. INCOME TAX (continued)

The tax on the Bank's taxable profits differs from the theoretical amount that would arise using the applicable tax rates as follows:

| | 2016 € | 2015 € |
|---|---|---|
| Loss before tax | (8.805.953) | (9.575.110) |
| Tax calculated at the applicable tax rates | (1.100.744) | (1.196.889) |
| Tax effect of expenses and other losses not deductible for tax purposes | 573.805 | 668.211 |
| Tax effect of income and deductions not subject to tax | (1.001.743) | (606.430) |
| Other tax adjustment | - | - |
| Tax losses to be carried forward | 1.638.213 | 1.135.108 |
| Prior year tax adjustments | | - |
| **Total corporation tax** | **109.531** | **-** |

## 14. CASH AND BALANCES WITH CENTRAL BANK

Cash and balances with Central Bank include the mandatory deposits with the Central Bank of Cyprus held in a minimum reserve account for liquidity purposes. These deposits are not available for financing the Bank's operational transactions.

| | 2016 € | 2015 € |
|---|---|---|
| Cash (Note 31) | 8.634.370 | 8.292.503 |
| Balances with Central Bank of Cyprus (Note 31) | 305.996.600 | 167.098.617 |
| Cheques to be cleared (Note 31) | 2.348.503 | 1.299.682 |
| Other deposits with the Central Bank of Cyprus in a minimum reserve account | 18.324.778 | - |
| Mandatory deposits with the Central Bank of Cyprus in a minimum reserve account | 10.025.034 | 7.937.462 |
| **Total** | **345.329.285** | **184.628.264** |

## 15. PLACEMENTS WITH OTHER BANKS

| | 2016 € | 2015 € |
|---|---|---|
| Bank accounts (Note 31) | 36.113.413 | 29.707.134 |
| Placements with other banks (Note 31) | 51.001.211 | 2.992.048 |
| **Total** | **87.114.624** | **32.699.182** |
| Current | 87.114.624 | 32.699.182 |
| Non-current | - | - |
| **Total** | **87.114.624** | **32.699.182** |

Placements with other banks carry interest based on the inter-bank interest rate of the relevant period and currency. Bank accounts and placements with other banks have maturities of less than three months.

The analysis of the credit rating of placements with other banks, as performed by independent rating agencies, is presented in Note 34.

# Notes to the financial statements for the year ended 31 December 2016

## 16. RECEIVABLES FROM DEBT SECURITIES

| | 2016 € | 2015 € |
|---|---|---|
| Receivables from debt securities | 44.288.759 | 36.517.952 |
| **Total** | **44.288.759** | **36.517.952** |

On 31st December 2016, the receivables from debt securities comprised of Cyprus Treasury Bills with maturity of less than 3 months (€32.493.165) and Cyprus Government bonds with long term maturity (€11.795.594).

The analysis of the credit rating of receivables from debt securities, as performed by independent rating agencies, is presented in Note 34.

## 17. LOANS AND OTHER ADVANCES TO CUSTOMERS

| | 2016 € | 2015 € |
|---|---|---|
| Advances to individuals | 186.129.655 | 197.555.430 |
| Advances to corporate entities: | | |
| Large corporate entities and organisations | 24.273.537 | 43.756.650 |
| Small and medium size enterprises (SMEs) | 498.846.131 | 539.584.537 |
| **Advances to customers – gross** | **709.249.323** | **780.896.617** |
| **Advances to subsidiaries - gross** | **17.483.094** | **3.924.188** |
| **Advances to customers and subsidiaries - gross** | **726.732.417** | **784.820.805** |
| Provisions for the impairment of loans and advances to subsidiaries | (3.781.961) | (2.590.387) |
| Provisions for the impairment of loans and advances to customers | (152.807.820) | (147.720.308) |
| **Total provisions for the impairment of loans and advances to customers and subsidiaries** | **(156.589.781)** | **(150.310.695)** |
| Advances to subsidiaries – net | 13.701.133 | 1.333.801 |
| Advances to customers – net | 556.441.503 | 633.176.309 |
| **Advances to customers and subsidiaries – net** | **570.142.636** | **634.510.110** |
| Current | 207.154.506 | 206.956.621 |
| Non-current | 362.988.130 | 427.553.489 |
| **Total** | **570.142.636** | **634.510.110** |

# Notes to the financial statements for the year ended 31 December 2016

## 17. LOANS AND OTHER ADVANCES TO CUSTOMERS (continued)

### Provision for impairment of loans and advances

The following is an analysis of the movement of the provision for impairment of loans and advances by category:

| | Individuals € | Small and medium size enterprises € | Large corporate entities and organisations € | Total € |
|---|---|---|---|---|
| Balance at 1 January 2015 | 40.040.013 | 82.276.282 | 7.877.290 | 130.193.585 |
| Provision recoveries | (5.164.145) | (28.361.109) | - | (33.525.254) |
| Write-offs | (1.457.136) | (3.458.209) | - | (4.915.345) |
| Provision charge for the year | 14.608.552 | 40.592.702 | 2.532.420 | 57.733.674 |
| Other adjustments | 10.535 | (10.535) | - | - |
| Foreign exchange differences | 538.273 | 285.762 | - | 824.035 |
| Balance as at 31 December 2015 | **48.576.092** | **91.324.893** | **10.409.710** | **150.310.695** |
| **Individual impairment** | **39.350.687** | **85.964.419** | **9.799.173** | **135.114.279** |
| **Collective impairment** | **9.225.405** | **5.360.474** | **610.537** | **15.196.416** |
| Balance at 1 January 2016 | 48.576.092 | 91.324.893 | 10.409.710 | 150.310.695 |
| Provision recoveries | (21.332.329) | (28.936.714) | (1.927.284) | (52.196.327) |
| Write-offs | (1.790.436) | (131.817) | (9.267.649) | (11.189.902) |
| Provision charge for the year | 22.375.711 | 43.924.922 | 1.955.525 | 68.256.158 |
| Other adjustments | 355.122 | 958.268 | - | 1.313.390 |
| Foreign exchange differences | 62.028 | 33.739 | - | 95.767 |
| Balance as at 31 December 2016 | **48.246.188** | **107.173.291** | **1.170.302** | **156.589.781** |
| **Individual impairment** | **43.868.493** | **100.352.542** | **-** | **144.221.035** |
| **Collective impairment** | **4.377.695** | **6.820.749** | **1.170.302** | **12.368.746** |

The charge in the Income Statement relating to “Provisions for impairment on loans and advances” included the amount of €377.055 (2015: debit €144.979) which relates to advances written off for which no provision was created, or for which the provision was not of equal amount to the amount written off and €175.850 (2015: €NIL) which relates to provision on off balance sheet items. As a result the movement in “Provision for impairment of advances” in the balance sheet differs from the change in the Income Statement.

## 18. AVAILABLE FOR SALE FINANCIAL ASSETS

| | 2016 € | 2015 € |
|---|---|---|
| Investments in bonds (1) | 74.074.782 | 91.777.833 |
| Investments in equity securities (2) | 12.203.848 | 12.165.020 |
| | **86.278.630** | **103.942.853** |
| Assets listed in the Cyprus Stock Exchange (2) | 11.912.438 | 11.912.438 |
| Assets listed in Foreign Stock Exchanges (1) | 74.113.910 | 91.777.833 |
| Non-listed assets | 252.282 | 252.582 |
| | **86.278.630** | **103.942.853** |
| Current | 69.069.644 | 25.853.243 |
| Non-current | 17.208.986 | 78.089.610 |
| | **86.278.630** | **103.942.853** |

# Notes to the financial statements for the year ended 31 December 2016

## 18. AVAILABLE FOR SALE FINANCIAL ASSETS (continued)

(1) Investment in bonds owned by the Bank comprised of government bonds issued by European Union countries including Cyprus. All the bonds are traded in active markets (Note 34) and are valued based on current market value as quoted in the stock exchange they are listed on. The revaluation gain as at 31 December 2016 was €177.195 (2015: €404.688).

(2) The Bank owns 19,91% of the share capital of Atlantic Insurance Company Limited (ATL). The Bank's Management believes that the price of the share which is listed in the Cyprus Stock Exchange is not representative due to the low volume of transactions and therefore adopted at the end of 2015 the valuation conducted by the independent firm KPMG, using alternative valuation methods. Under the 'Agreement for the Sale and Purchase of Shares in Piraeus Bank (Cyprus) Ltd' between Piraeus Bank S.A and Holding M. Sehnaoui SAL (HMS) which was completed on 28th December 2016, Piraeus Bank S.A. is committed to either find, within 180 days after Completion, a buyer for at least 50% of the Company's shares in ATL (with further terms ensuring that the Bank receives no less and no more than the book value per share as at 31 December 2015) or to make a payment to HMS of €4,499,998.44, whereupon HMS shall subscribe for and the Company shall issue to HMS 1,209,677 new ordinary shares which HMS shall allocate to itself and the Subscribers pro rata to their respective shareholdings in the Company at the time of Completion. As a result the 50% of the investment is classified as a current asset.

During the year the Bank received dividends and interest from available for sale financial assets amounting to €777.709 and €83.138 (debit) respectively (2015: €606.943 and €152.848 (debit) respectively).

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2016**<br>**€** | **2015**<br>**€** |
|---|---:|---:|
| Other investments at fair value through profit or loss | 11.859.747 | 12.049.250 |
| | **11.859.747** | **12.049.250** |

Other investments classified as "Financial assets at fair value through profit or loss" comprise of a financing arrangement relating to property obtained by the Bank after an agreement with a customer for the settlement of loans. Based on the transfer agreement, for a period of three years the customer has the right to repurchase any property at the initial price plus any cost to the bank up to the date of the repurchase. These financial assets have been classified as financial assets at fair value through profit or loss on initial recognition.

During the year ended 31 December 2016, the Bank disposed part of the property obtained under the above agreement amounting to €923.000 at a profit of €61.300 recognised in the statement of profit or loss and other comprehensive income (Note 8).

An independent valuation of the property was performed by external, qualified and independent valuers to determine the fair value as at 31 December 2016. The revaluation gain of €733.497 was credited to the statement of profit or loss and other comprehensive income.

**Risk of fluctuations in property prices**

The credit risk arising from the financial assets at fair value through profit or loss is considered to be zero as at the balance sheet date, since the measurement of these financial assets at their fair value is connected to the market values of the property obtained by the Bank, based on the terms of the transaction with the customer. The fair value of the financial assets at fair value through profit or loss as at 31 December 2016 is approximately the same with their carrying value. The risk relating to the prices of the property that the Bank owns, arises from possible negative movements in the current property prices.

On 31 December 2016, other financial assets at fair value through profit or loss are exposed to the risk of fluctuations in property prices. In case of a 5% decrease in the property prices as at 31 December 2016, equity would decrease by €593 thousand (2015: decrease by €602 thousand).

# Notes to the financial statements for the year ended 31 December 2016

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

### Risk of fluctuations in property prices (continued)

In case of an increase in the property prices, the positive effect on equity is limited by the provision of the relative agreement with the customer, whereby under certain circumstances the client is allowed to benefit part of the realised profit in case of sale within a predetermined period.

## 20. INVESTMENTS IN SUBSIDIARIES

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Net book value at 1 January | 56.054 | 57.054 |
| Dissolution following voluntary liquidation | (2.000) | (1.000) |
| Net book value at 31 December | **54.054** | **56.054** |

All the subsidiaries of the Bank have been incorporated in Cyprus and their activities are carried out in Cyprus. During 2016 the subsidiary company Curdart Holdings Limited was dissolved following a voluntary liquidation. On 8 April 2015, the company Piraeus Bank (Cyprus) Nominees Limited was also dissolved following voluntary liquidation.

Information regarding the subsidiaries for the year ended 31 December 2016 and 2015 is presented below:

| | Effective shareholding 2016 | Effective shareholding 2015 | Country of incorporation | Principal activity |
|---|---|---|---|---|
| **EMF Investors Limited** | 100% | 100% | Cyprus | Dormant |
| **AstroBank Insurance Agency Limited (Former Piraeus (Cyprus) Insurance Brokerage)** | 100% | 100% | Cyprus | Insurance Broker |
| **Curdart Ltd** | - | 100% | Cyprus | Dormant-Liquidated |
| **Adflikton Investments Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Costpleo Investments Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Custsofiar Enterprises Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Gravieron Company Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Kaihur Investment Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Pertanam Enterprises Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Rockory Enterprises Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Alarconaco Enterprises Ltd** | 100% | 100% | Cyprus | Investment property owner |
| **Piraeus Bank (Cyprus) Nominees Limited** | - | - | Cyprus | Dormant-Liquidated |

# Notes to the financial statements for the year ended 31 December 2016

## 21. INTANGIBLE ASSETS

| | Computer Software € | Total € |
|---|---|---|
| **1 January 2015** | | |
| Cost | 7.575.187 | 7.575.187 |
| Accumulated amortisation | (7.288.756) | (7.288.756) |
| **Net book value** | **286.431** | **286.431** |
| | | |
| **Year ended 31 December 2015** | | |
| Net book value at beginning of year | 286.431 | 286.431 |
| Additions | 121.240 | 121.240 |
| Amortisation (Note 10) | (189.492) | (189.492) |
| Disposals / write offs – Cost | (4.086) | (4.086) |
| Disposals / write offs – Accumulated amortisation | 4.052 | 4.052 |
| | **218.145** | **218.145** |
| **Net book value at end of year 31 December 2015 / 1 January 2016** | | |
| Cost | 7.692.341 | 7.692.341 |
| Accumulated amortisation | (7.474.196) | (7.474.196) |
| **Net book value** | **218.145** | **218.145** |
| | | |
| **Year ended 31 December 2016** | | |
| Net book value at beginning of year | 218.145 | 218.145 |
| Additions | 112.814 | 112.814 |
| Amortisation (Note 10) | (140.859) | (140.859) |
| Disposals / write offs – Cost | (1.313) | (1.313) |
| Disposals / write offs – Accumulated amortisation | 657 | 657 |
| | **189.444** | **189.444** |
| **Net book value at 31 December 2016** | | |
| Cost | 7.803.842 | 7.803.842 |
| Accumulated amortisation | (7.614.398) | (7.614.398) |
| **Net book value** | **189.444** | **189.444** |

# Notes to the financial statements for the year ended 31 December 2016

## 22. PROPERTY, PLANT & EQUIPMENT

| | Property € | Plant and equipment € | Total € |
|---|---|---|---|
| **1 January 2015** | | | |
| Cost or valuation | 22.062.500 | 6.980.049 | 29.042.549 |
| Accumulated depreciation | - | (3.254.338) | (3.254.338) |
| **Net book value** | **22.062.500** | **3.725.711** | **25.788.211** |
| | | | |
| **Year ended 31 December 2015** | | | |
| Net book value at beginning of year | 22.062.500 | 3.725.711 | 25.788.211 |
| Additions | 186.454 | 235.309 | 421.763 |
| Disposals / write offs – cost | (7.441) | (365.536) | (372.977) |
| Disposals / write offs – accumulated depreciation | 37 | 173.419 | 173.456 |
| Depreciation (Note 10) | (147.095) | (304.585) | (451.680) |
| Property revaluation – loss | (404.253) | - | (404.253) |
| Property revaluation – accumulated depreciation | 145.760 | - | 145.760 |
| Transfer – cost | (129.760) | 129.760 | - |
| Transfer – accumulated depreciation | 1.298 | (1.298) | - |
| **Net book value at the end of year** | **21.707.500** | **3.592.780** | **25.300.280** |
| | | | |
| **31 December 2015 / 1 January 2016** | | | |
| Cost or valuation | 21.707.500 | 6.979.582 | 28.687.082 |
| Accumulated depreciation | - | (3.386.802) | (3.386.802) |
| **Net book value** | **21.707.500** | **3.592.780** | **25.300.280** |
| | | | |
| **Year ended 31 December 2016** | | | |
| Net book value at beginning of year | 21.707.500 | 3.592.780 | 25.300.280 |
| Additions | - | 179.729 | 179.729 |
| Disposals / write offs – cost | - | (287.614) | (287.614) |
| Disposals / write offs – accumulated depreciation | - | 287.613 | 287.613 |
| Depreciation (Note 10) | (142.350) | (311.757) | (454.107) |
| Property revaluation – loss | (1.082.500) | - | (1.082.500) |
| Property revaluation – accumulated depreciation | 142.350 | - | 142.350 |
| **Net book value at end of year** | **20.625.000** | **3.460.751** | **24.085.751** |
| | | | |
| **31 December 2016** | | | |
| Cost or valuation | 20.625.000 | 6.871.697 | 27.496.697 |
| Accumulated depreciation | - | (3.410.946) | (3.410.946) |
| **Net book value** | **20.625.000** | **3.460.751** | **24.085.751** |

Property includes land of €9.209 thousand (2015: €9.845 thousand) for which no depreciation is charged. The latest property revaluation was performed on 30 November 2016. The fair value as at 31 December 2016 is expected to approximate to this value.

The policy of the bank is to carry out valuations of its property periodically (every 1-3 years). As a result of the economic conditions present in Cyprus and their impact on the real estate market, the Bank performed revaluations as at 30 November 2016 and at 31 December 2015. As a result, an impairment loss of €940 thousand (2015: €192 thousand) was recognised in the income statement.

# Notes to the financial statements for the year ended 31 December 2016

## 22. PROPERTY, PLANT & EQUIPMENT (continued)

The carrying amount of the owned property based on cost less accumulated depreciation was €20.625.000 as at 31 December 2016 (2015: €21.707.500).

During the year ended 31 December 2016, plant and equipment with a net book value of €46.001 (2015: €192.117) for which no provision had been made in prior years, was written off in the income statement.

### Fair value of land and buildings

An independent valuation of the Bank's land and buildings was performed by two independent valuers to determine the fair value of the land and buildings as at 31 December 2016 and 2015.The loss on revaluation was charged to the income statement in accordance with the relevant accounting policy. The following table analyses the property, plant and equipment carried at fair value, by method of valuation. The different levels have been defined as follows:

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

| | **Fair value measurements at 31 December 2016 using:** | | |
|---|---|---|---|
| | **Quoted prices in active markets for identical assets (Level 1) €** | **Significant other observable inputs (Level 2) €** | **Significant unobservable inputs (Level 3) €** |
| **Recurring fair value measurements** | | | |
| Land and buildings | | | |
| – Office Buildings - Nicosia | - | - | 20.625.000 |
| | **-** | **-** | **20.625.000** |

There were no transfers between levels during the year.

# Notes to the financial statements
# for the year ended 31 December 2016

## 22. PROPERTY, PLANT & EQUIPMENT (continued)

| | Fair value measurements at 31 December 2015 using: | | |
|---|---|---|---|
| | Quoted prices in active markets for identical assets (Level 1) € | Significant other observable inputs (Level 2) € | Significant unobservable inputs (Level 3) € |
| **Recurring fair value measurements** | | | |
| Land and buildings | | | |
| – Office Buildings - Nicosia | - | - | 21.707.500 |
| | **-** | **-** | **21.707.500** |

There were no transfers between levels during the year.

**Fair value measurements using significant unobservable inputs (Level 3)**

| | Office buildings Nicosia | |
|---|---|---|
| | 2016 € | 2015 € |
| **Opening balance** | 21.707.500 | 22.062.500 |
| Additions | - | 186.454 |
| Transfers to plant and equipment | - | (128.462) |
| Depreciation charge | (142.350) | (147.095) |
| Losses recognised in profit and loss | - | (411.657) |
| Revaluation of property – accumulated depreciation | (940.150) | 145.760 |
| **Closing balance** | **20.625.000** | **21.707.500** |

During the years 2016 and 2015, there have been a limited number of similar sales in the local market and as a result, the Bank had to adopt a valuation technique using unobservable inputs. Accordingly, the fair value was classified to Level 3.

The comparison method was used in combination with the replacement cost method and investment method.

**Valuation processes of the Bank**

On an annual basis, the Bank engages external and qualified valuers to determine the fair value of land and buildings. As at 31 December 2016 and 2015, the fair value of the land and buildings has been determined as the average value based on the valuations carried out by the companies Kikis Athinodorou & Associates Chartered Surveyors and Property Valuers, and Xenios Stephanou & Associates Property Consultants and Valuers.

# Notes to the financial statements for the year ended 31 December 2016

## 22. PROPERTY, PLANT & EQUIPMENT (continued)

The Level 3 valuations for land and buildings have been performed using the average of a sales comparison method and the construction and development method, similar to the Level 2 valuations for land and buildings. However for office buildings in Nicosia there have been a limited number of similar sales in the local market and the valuations have been performed using unobservable inputs. The external valuers, have determined these inputs based on the size, age and condition of the land and buildings, the state of the local economy and comparable prices in the area.

**Information on fair value measurements using significant unobservable inputs (Level 3)**

| Description | Fair value at 31 December 2016 € | Valuation techniques | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|
| Office building - Nicosia | 20.625.000 | Land cost | Price per square metre | Approximately €4.250m² | The higher the price per square metre, the higher the fair value |
| | | Approximation of building construction | Price per square metre | Approximately €1.750m² for ground floor and other floors and €550μ² for basements | The higher the price per square metre, the higher the fair value |

| Description | Fair value at 31 December 2015 € | Valuation techniques | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|
| Office building - Nicosia | 21.707.500 | Land cost | Price per square metre | Approximately €4.450m² | The higher the price per square metre, the higher the fair value |
| | | Approximation of building construction | Price per square metre | Approximately €1.670m² for ground floor and other floors and €800m² for basements | The higher the price per square metre, the higher the fair value |

Sensitivity analysis is presented in Note 3.

# Notes to the financial statements for the year ended 31 December 2016

## 23. INVESTMENT PROPERTIES

| | 2016 € | 2015 € |
|---|---|---|
| 1 January | 6.602.650 | - |
| Additions | 10.850.000 | 5.800.000 |
| Profit from changes in fair value (Note 8) | 367.850 | 802.650 |
| **Closing balance** | **17.820.500** | **6.602.650** |

During the year ended 31 December 2016, the Bank obtained property of a total amount of €10.850 thousand (2015: €5.800 thousand) after agreements with customers for settlement of their loans. Investment property comprises of land and buildings in different areas in Cyprus.

### Fair value of investment property

An independent valuation of the Bank's property was performed by external, qualified and independent valuers to determine the fair value as at 31 December 2016. The revaluation gain was credited to the income statement in accordance with the relevant accounting policy. The following table analyses the method of valuation of investment property carried at fair value. The different levels have been defined as follows:

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

| | Fair value measurements at 31 December 2016 using: | | |
|---|---|---|---|
| | Quoted prices in active markets for identical assets (Level 1) € | Significant other observable inputs (Level 2) € | Significant unobservable inputs (Level 3) € |
| **Recurring fair value measurements** | | | |
| Investment property | - | - | 17.820.500 |
| | **-** | **-** | **17.820.500** |

There were no transfers between levels during the year.

# Notes to the financial statements
# for the year ended 31 December 2016

### 23. INVESTMENT PROPERTIES (continued)

| | Fair value measurements at 31 December 2015 using: | | |
|---|---|---|---|
| | **Quoted prices in active markets for identical assets (Level 1) €** | **Significant other observable inputs (Level 2) €** | **Significant unobservable inputs (Level 3) €** |
| **Recurring fair value measurements** | | | |
| Investment property | - | - | 6.602.500 |
| | **-** | **-** | **6.602.500** |

There were no transfers between levels during the year.

**Fair value measurements using significant unobservable inputs (Level 3)**

| | **2016 €** | **2015 €** |
|---|---|---|
| **Opening balance** | 6.602.650 | - |
| Transfers to / (from) Level 3 | - | - |
| Additions | 10.850.000 | 5.800.000 |
| Profit from changes in fair value recognised in the income statement (Note 8) | 367.850 | 802.650 |
| **Closing balance** | **17.820.500** | **6.602.650** |

During the years 2016 and 2015, there have been a limited number of similar sales in the local market and as a result, the Bank adopted a valuation technique using unobservable inputs. Accordingly, the fair value measurement was classified to Level 3.

The comparison method was used in combination with the replacement cost method.

**Risk of changes in property prices**

Risk relating to the prices of property held by the Bank arises from possible negative fluctuations in the current property prices.

On 31 December 2016, investment property was exposed to the risk of changes in property prices. In case of a decrease/ increase of 15% in the market price as at 31 December 2016, the equity would decrease/increase by €2.339 thousand (2015:€990 thousand).

**Valuation processes of the Bank**

On an annual basis, the Bank engages external and qualified valuers to determine the fair value of the investment properties. As at 31 December 2016, the valuations were performed by the company Xenios Stephanou & Associates, Philoktimatiki Public Limited, Kikis Athinodorou and Associates Limited and Polyviou Property Management.

The Level 3 valuations of investment properties have been performed using the average of a sales comparison method and the construction and development method, similar to the Level 2 valuations of land and buildings. The instability of the market and the lack of liquidity, factors affecting the demand and as a result the prices of the property, were taken into account in the valuation of investment properties.

# Notes to the financial statements
# for the year ended 31 December 2016

## 23. INVESTMENT PROPERTIES (continued)

**Information on fair value measurements using significant unobservable inputs (Level 3)**

**2016**

| Description | Fair value at 31 December 2016 € | Land surface in m² | Estimated fair value of land per m² | Building surface in m² | Estimated fair value of buildings per m² |
|---|---|---|---|---|---|
| Land with buildings Nicosia | 10.519.000 | 357-8.650 | €60 - €448 | 205 – 1.635 | €1.087 - €1.255 |
| Land with buildings Larnaca | 1.325.000 | 1.041-4.302 | €80 - €535 | 744 | €333 |
| Plot of land with building Limassol | 3.650.000 | 2.913-100.001 | €4 - €775 | 1.566 | €390 |
| Land with buildings Paphos | 2.326.500 | 512-5.017 | €10 - €725 | 78-578 | €292 - €2.451 |

**2015**

| Description | Fair value at 31 December 2015 € | Land surface in m² | Estimated fair value of land per m² | Building surface in m² | Estimated fair value of buildings per m² |
|---|---|---|---|---|---|
| Land with buildings Paphos | 1.505.900 | 512 -540 | €402 - €670 | 20 – 375 | €175 - €440 |
| Land with buildings Larnaca | 744.625 | 1.041 | €495 | 65 – 377 | €255 - €440 |
| Plot of land with building Limassol | 2.673.250 | 2.913 | €717 | 225 – 870 | €175 - €440 |
| Industrial plot of land | 1.678.875 | 5.045 | €333 | - | - |

*Sensitivity analysis*

All property valuations of the Bank have been classified as Level 3. Significant increases/decreases in the estimated values per square meter of property, valued based on the market comparison method could lead to significantly higher/lower fair values.

# Notes to the financial statements for the year ended 31 December 2016

## 24. OTHER ASSETS

| | 2016 € | 2015 € |
|---|---|---|
| Prepaid expenses | 493.106 | 430.992 |
| Other receivables | 639.865 | 2.141.329 |
| | **1.132.971** | **2.572.321** |
| | | |
| Current | 1.132.971 | 2.572.321 |
| Non-current | - | - |
| | **1.132.971** | **2.572.321** |

## 25. DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

| | 2016 € | 2015 € |
|---|---|---|
| Current | 2.237.738 | 2.090.354 |
| | **2.237.738** | **2.090.354** |
| **Analysis by geographical sector** | | |
| Cyprus | 1.983.357 | 1.783.690 |
| Greece | 254.186 | 305.367 |
| Other countries | 195 | 1.297 |
| | **2.237.738** | **2.090.354** |

## 26. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

| | 2016 € | 2015 € |
|---|---|---|
| Current | 1.061.411.860 | 889.090.527 |
| Non-current | 11.509.567 | 69.435.358 |
| | **1.072.921.427** | **958.525.885** |

Deposits and other customer accounts are analysed as follows:

| | 2016 € | 2015 € |
|---|---|---|
| Deposits from corporate entities: | | |
| Large entities and organisations | 2.392.347 | 1.251.968 |
| Small and medium size enterprises | 575.503.709 | 474.392.431 |
| Deposits from individuals | 495.025.371 | 482.881.486 |
| **Total** | **1.072.921.427** | **958.525.885** |

Deposits and other customer accounts are analysed by country as follows:

| | 2016 € | 2015 € |
|---|---|---|
| Cyprus | 713.183.033 | 614.047.010 |
| Greece | 119.496.918 | 93.773.185 |
| British Virgin Islands | 71.787.942 | 64.193.285 |
| Russia | 25.724.611 | 58.335.558 |
| Other countries | 142.728.923 | 128.176.847 |
| **Total** | **1.072.921.427** | **958.525.885** |

## 27. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are calculated on all temporary differences under the liability method using the applicable tax rates (Note 13). Deferred tax assets and liabilities are netted off when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax jurisdiction. The movement in deferred tax is as follows:

**Deferred tax assets**

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Balance at 1 January | 5.498.491 | 5.210.967 |
| (Credit) / Debit from impaired loans and advances | (428.707) | 287.524 |
| Change of future utilisation of tax losses | 2.571.331 | - |
| **Balance at 31 December** | **7.641.115** | **5.498.491** |

**Deferred tax liabilities**

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Balance at 1 January | 1.064.617 | 1.083.624 |
| Adjustment – property revaluation | (181.224) | (66.183) |
| Adjustment – inflation rates | - | 47.176 |
| **Balance at 31 December** | **883.393** | **1.064.617** |

Deferred tax assets and liabilities are attributable to the following components:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax relating to future utilisation of tax losses | 6.028.115 | 3.456.784 |
| Deferred tax relating to collective provisions | 1.613.000 | 2.041.707 |
| | **7.641.115** | **5.498.491** |
| **Deferred tax liabilities** | | |
| Property revaluation (1) | 727.314 | 908.538 |
| Difference between depreciation and capital allowances | 156.079 | 156.079 |
| | **883.393** | **1.064.617** |

(1) The property was valued at fair value at the time of acquisition of the Arab Bank Plc Cyprus branch and was last revalued at 30 November 2016. It comprises of the Bank's headquarters on 1 Spyrou Kyprianou Street, Nicosia.

The deferred tax credit in the income statement relates to temporary differences as follows:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Tax losses | 2.571.331 | - |
| Changes in inflation rates | - | (47.176) |
| Collective impairment of loans and advances | (428.707) | 287.524 |
| **Total** | **2.142.624** | **240.348** |

### 28. OTHER LIABILITIES

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Payable expenses | 1.805.444 | 731.367 |
| Deferred income | 1.453.245 | 1.453.245 |
| Outstanding customers banking transactions | 6.138.714 | 5.708.047 |
| Other liabilities | 6.941.104 | 5.832.199 |
| **Total** | **16.338.507** | **13.724.858** |
| | | |
| Current | 16.207.597 | 13.593.948 |
| Non-current | 130.910 | 130.910 |
| **Total** | **16.338.507** | **13.724.858** |

### 29. SHARE CAPITAL AND SHARE PREMIUM

| | Number of shares | Share Capital<br>€ | Share Premium<br>€ | Total<br>€ |
|---|---|---|---|---|
| **1 January 2016** | 3 360 798 | 3.360.798 | 158.592.933 | 161.953.731 |
| Issue of share capital (Note 1) | 10.752.689 | 10.752.689 | 29.247.314 | 40.000.003 |
| **31 December 2016** | **14.113.487** | **14.113.487** | **187.840.247** | **201.953.734** |

The issued share capital is fully paid. The share premium is not available for distribution to the shareholders in the form of dividend. The authorised share capital of the Bank as at 31 December 2016 was 14.113.487.

### 30. RETAINED EARNINGS AND OTHER RESERVES

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| **Retained earnings** | | |
| Balance at 1 January | (92.512.683) | (83.177.921) |
| Loss for the year attributable to the Bank's shareholders | (6.772.860) | (9.334.762) |
| **Balance at 31 December** | **(99.285.543)** | **(92.512.683)** |
| | | |
| **Fair value reserve on available for sale financial assets** | | |
| Balance at 1 January | 137.862 | (20.987) |
| Revaluation for the year (Note 18) | 177.195 | 404.688 |
| Transfer of realised losses/(gains) on disposal of available for sale financial assets | - | (245.839) |
| **Balance 31 December** | **315.057** | **137.862** |
| | | |
| **Property revaluation reserves** | | |
| Balance at 1 January | - | - |
| Impairment of property | - | - |
| **Balance 31 December** | - | - |
| **Total reserves at 31 December** | **(98.970.486)** | **(92.374.821)** |

### 31. CASH AND CASH EQUIVALENTS

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Cheques to be cleared (Note 14) | 2.348.503 | 1.299.682 |
| Cash (Note 14) | 8.634.370 | 8.292.503 |
| Balances with the Central Bank of Cyprus (Note 14) | 305.996.600 | 167.098.617 |
| Bank accounts (Note 15) | 36.113.413 | 29.707.134 |
| Placements with other banks – up to three months (Note 15) | 51.001.211 | 2.992.048 |
| **Balance at 31 December** | **404.094.097** | **209.389.984** |

# Notes to the financial statements for the year ended 31 December 2016

## 32. CONTINGENT LIABILITIES AND COMMITMENTS

**Credit – related financial instruments**
Credit-related financial instruments include commitments relating to credit guarantees and letters of guarantee, issued in order to meet the financial requirements of the Bank's customers. The credit risk on these transactions corresponds to the total contract amount. However, the majority of these facilities are offset by corresponding commitments by third parties.

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Credit guarantees | 324.453 | 1.269.566 |
| Letters of guarantee | 12.779.548 | 11.174.060 |
| **Total** | **13.104.001** | **12.443.626** |

As at 31 December 2016 letters of guarantee of €3.682.328 (2015: €3.291.177) had a maturity date beyond one year. The aggregate amount of credit guarantees had a maturity date within one year. The amounts are interest free and are presented at their book value since the effect of discounting is not significant.

**Unutilised credit limits**
Loan commitments/credit limits that have been approved but not yet utilised amount to €62.437.224 (2015: €61.084.989).

**Legal proceedings**
As at 31 December 2016 and 2015 there were pending litigations against the Bank in connection with its activities. Based on legal advice, the Board of Directors believes that there is adequate defense against all claims and it is not probable that the Bank will suffer any significant damage that will affect its ability to operate normally.

**Operating lease commitments**
The Bank rents several branches, offices and storage facilities under operating leases, most of which can be cancelled upon notice. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under the non-cancelable operating leases are as follows:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Up to one year | 421.133 | 498.578 |
| From one to five years | 66.648 | 435.988 |
| More than five years | - | - |
| | **487.781** | **934.566** |

**Tax issues**
A tax investigation is ongoing for the years 2006-2013. Given that the tax investigation may consider some of the expenses of the period as non-deductible for tax purposes, or may differentiate the tax treatment for some provisions, it is possible that additional taxes may be imposed for years that the tax investigation has not been completed yet by the tax authorities. The Sale and Purchase Agreement which was signed in July 2016 and completed on 28 December 2016, includes warranties which impose an obligation on PBSA to compensate the Bank for any payments made to the tax authorities in respect of the open tax years prior to completion.

## 33. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative financial instruments for trading:

***Forward contracts:*** These are contracts for trading foreign currency to be settled at a future date. Forward contracts specify the exchange rate at which two currencies will be traded at a specific future date. The exchange rate is determined at the trade date.

***Foreign currency swaps:*** These are contracts to exchange cash flows in different currencies. Foreign currency swaps are commitments to exchange specific amounts of two different currencies including interest, at a specific future date. The foreign currency swap contracts are valued at their fair value (using the current exchange rates) by calculating the new swap points at the date of the valuation.

### 33. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amounts of those contracts provide a basis for comparison with other financial instruments recognised at the balance sheet, but they do not represent the amounts of future cash flows or the fair value of the derivatives and, therefore, do not provide an indication as to the Bank's exposure to credit and other market risks. The fair value of the derivative financial instruments may be positive or negative as a result of fluctuations in the current exchange rates in relation to the prevailing terms. Derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

The notional and fair values of derivative financial instruments were as follows:

| | Notional contract amount | Fair Value | |
|---|---|---|---|
| | | Assets | Liabilities |
| | € | € | € |
| **2016** | | | |
| **Derivatives held for trading:** | | | |
| **Foreign exchange derivatives** | | | |
| Forward contracts | 14.249.899 | 765.220 | 741.330 |
| Currency swaps | 121.184.531 | 303.754 | 806.602 |
| **Total derivative financial instruments** | | **1.068.974** | **1.547.932** |
| **2015** | | | |
| **Derivatives held for trading:** | | | |
| **Foreign exchange derivatives** | | | |
| Forward contracts | 1.800.082 | 6.337 | 1.476 |
| Currency swaps | 99.536.860 | 498.042 | 129.085 |
| **Total derivative financial instruments** | | **504.379** | **130.561** |

### 34. MANAGEMENT OF FINANCIAL RISKS

Like any other financial institution, the Bank is exposed to a variety of risks. These risks are monitored on a continuous basis using various methods, so as to avoid the excessive concentration of risk. The nature of these risks as well as the ways in which they are managed are outlined below.

The Bank's Management believes that the Bank has adopted a conservative strategy and taken all the measures necessary to support its activities and future growth in the current business and economic environment.

As at 31 December 2016 the Bank holds assets which are directly or indirectly affected by the financial soundness of the Cyprus economy as follows:

Cyprus Government Debt securities (2016: €55m, 2015: €37m)

Loans and other advances - Loans granted under the guarantee of the Cyprus Government (2016: €74m, 2015 €64m)

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

***Cyprus economic environment***

Following a long and relatively deep economic recession, the Cyprus economy began to record positive growth in 2015 which accelerated during 2016. The restrictive measures and capital controls which were in place since March 2013 were lifted in April 2015 and on the back of the strength of the economy's performance and the strong implementation of required measures and reforms, Cyprus exited its economic adjustment programme in March 2016.

In recognition of the progress achieved on the fiscal front and the economic recovery, as well as the enactment of the foreclosure and insolvency framework, the international credit rating agencies have proceeded with a number of upgrades of the credit ratings for the Cypriot sovereign, and although the rating continues to be "non-investment grade", the Cyprus government has regained access to the capital markets. Fitch Ratings upgraded the rating of the Republic of Cyprus one notch to BB- with a positive outlook in October 2016, S&P Global Rating by one notch to BB with a positive outlook in September 2016 and by one notch to BB+ with a stable outlook in March 2017 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015. In November 2016 Moody's Investors Service improved the outlook on the Republic of Cyprus from stable to positive.

The outlook for the Cyprus economy over the medium term remains positive, however, there are downside risks to the growth projections emanating from the high levels of non performing exposures in the banking sector, uncertainties in the property markets, as well as potential deterioration in the external environment for Cyprus, including continuation of the recession in Russia in conditions of protracted declines in oil prices; weaker than expected growth in the euro area as a result of worsening global economic conditions; slower growth in the UK with a weakening of the pound as a result of uncertainty regarding the outcome of the Brexit negotiations ; and political uncertainty in Europe in view of the refugee crisis.

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

The Company's Management has assessed:

- Whether any impairment allowances are deemed necessary for the Bank's financial assets carried at amortized cost by considering the economic situation and outlook as at the end of the reporting period. Impairment of trade receivables is determined using the "incurred loss" model required by International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". This standard requires recognition of impairment losses for receivables that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those future events are.
- The ability of the Bank to continue as a going concern (Note 2)

The Bank's Management believes that it is taking all the necessary measures to maintain the viability of the Bank and the development of its business in the current business and economic environment.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk

Credit risk arises from the possibility of losses relating to late payments to the Bank by its counterparties. Credit risk management focuses on ensuring a disciplined risk culture, transparency and rational risk taking, based on international best practices.

The Bank's Management has established the provisions for the impairment of financial assets based on the economic conditions and prospects as at the year end. The provision for loan receivables is determined using the method of incurred losses as required by the relevant accounting standards. These standards require the recognition of impairment losses on receivables arising from past events and prohibit the recognition of impairment losses that may result from future events, regardless of the possibility of such future events.

*Credit risk management*
Credit risk management methodologies are modified to reflect the changing financial environment. The various credit risk assessment methods used are revised annually or whenever deemed necessary and are adjusted according to the Bank's overall strategy and short-term and long-term objectives.

The various analyses of economic sectors and sub-sectors, combined with economic forecasts, provide the guidelines for the determination of the credit policy, which is revised from time to time.

Having as target the minimisation of credit risk, counterparty limits have been set, at the same time taking into consideration the credit rating of the debtor, the assigned collaterals and guarantees that reduce the exposure of the Bank to credit risk, as well as the nature and duration of the credit facility. Regarding each debtor's credit rating analysis, this is carried out by taking into consideration the country's risk but also the economic sector in which it operates, as well as qualitative and quantitative characteristics.

At the same time, limits have been established for the approval of credit facilities and lending procedures provide for the segregation of duties in order to ensure the objectivity, independence and monitoring of new and existing loans.

During the approval process the total credit risk is examined for each counterparty or group of counterparties which are related at Bank level. At the same time, any concentration is analysed and monitored on a continuous basis, with an aim to restrict potential large openings and dangerous concentrations, so that these will be in line with existing credit policy limits. Concentration of credit risk can arise at the level of an economic sector, at counterparty or group of counterparties, country, currency or nature of collateral.

Past due advances are monitored on a continuous basis and a systematic segregation between performing and non–performing advances is carried out according to the internal policy of the Bank which takes into account the criteria of the Central Bank of Cyprus. Significant exposures or delays are communicated to the Management which oversees the corresponding department for taking preventive or corrective measures.

Under the credit risk management framework, there is an evaluation of the effects of extreme but feasible scenarios on the quality of the loan portfolio and to the available capital, through simulation of crisis conditions (stress testing). The simulations examine separately each business and individual portfolio and estimate possible increases of unsecured advances which are likely to arise due to future decreases in collateral values. The unsecured exposures are calculated based on values after the application of haircuts as defined by the credit risk management policy.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

*Internal rating systems*
The methods for evaluation of credit rating differ depending on the type of counter party in the following categories: central governments (purchase and holding of bonds), financial institutions, large corporates and SMEs and individuals.

Individuals are evaluated based on two different methods of internal grading. The first method relates to existing customers and is based on the customers' repayment history and their general cooperation with the Bank, while the second method is based both on demographic factors and objective financial data (e.g. income, assets etc.) and is applied to both existing and new customers.

For the evaluation of large corporate and SMEs, the system used is Moody's Risk Advisor (MRA), which evaluates the financial condition of the business based on its economic and qualitative data, but also based on the economic sector it operates in.

The evaluation process is performed on a regular basis or when conditions require it so that the customer' s credit score is representative of the credit risk being undertaken and functions as a risk warning sign.

The customer's credit rating is used during the process of approving credit facilities and the setting of respective credit limits, for internal calculations of the probability of default as well as for monitoring changes in the quality of the loan portfolio of the Bank, with the aim to develop the appropriate strategies for avoiding undertaking increased risks.

*Maximum exposure to credit risk before collaterals and other credit improvements*
The table below presents the maximum exposure to credit risk that results from financial instruments included in the balance sheet, without taking into consideration collaterals or any other credit mitigations received. For financial assets included in the balance sheet, the exposure to credit risk is equal to their carrying value.

| | Maximum exposure | |
|---|---|---|
| | **2016** | **2015** |
| | **€** | **€** |
| Credit risk exposure from financial assets on the balance sheet: | | |
| Deposits with Central Bank (Note 14) | 334.346.412 | 175.036.079 |
| Placements with other banks (Note 15) | 87.114.624 | 32.699.182 |
| Receivables from debt securities (Note 16) | 44.288.759 | 36.517.952 |
| *Advances:* | | |
| Advances to individuals (Note 17) | 137.883.467 | 148.979.338 |
| Advances to corporations: | | |
| Large entities and organisations (Note 17) | 23.103.234 | 33.346.940 |
| Small and Medium size enterprises (Note 17) | 395.454.802 | 450.850.031 |
| Advances to subsidiaries (Note 17) | 13.701.133 | 1.333.801 |
| Available for sale financial assets – investments in bonds (Note 18) | 74.074.782 | 91.777.833 |
| Derivative financial instruments (Note 33) | 1.068.974 | 504.379 |
| Other assets (Note 24) | 1.132.971 | 2.572.321 |
| | **1.112.169.158** | **973.617.856** |
| Credit risk exposure from off balance sheet items: | | |
| Credit guarantees (Note 32) | 324.453 | 1.269.566 |
| Letters of guarantee (Note 32) | 12.779.548 | 11.174.060 |
| Unutilised credit limits (Note 32) | 62.437.224 | 61.084.989 |
| Total off balance sheet items | 75.541.225 | 73.528.615 |
| **Total on and off balance sheet items** | **1.187.710.383** | **1.047.146.471** |

# Notes to the financial statements for the year ended 31 December 2016

### 34. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

The Bank obtains collaterals so as to better manage the credit risk that arises from loans and advances. The main types of collaterals that the Bank obtains are: (a) mortgages, (b) bank guarantees, (c) deposits, (d) pledging of shares, (e) other encumbrances and (f) personal and corporate guarantees.

According to the above table, 35% (2015: 20%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 47% (2015: 61%) from advances to customers, 1% (2015: 0,13%) from advances to subsidiaries, 6% (2015: 9%) is derived from investment in bonds classified under the Available for sale portfolio and 4% (2015: 3%) is derived from receivables from debt securities. The Management of the Bank is confident in its ability to continue to control credit risk, which results from both the credit advances portfolio and the debt securities portfolio.

**Loans and advances**
The following table analyses the quality of the Bank's advances.

| | 2016 Advances € | 2015 Advances € |
|---|---|---|
| *Loans and advances to customers* | | |
| Neither past-due nor impaired | 270.589.581 | 346.930.791 |
| Past-due but not impaired | 152.033.289 | 163.773.862 |
| Impaired | 286.626.453 | 270.191.964 |
| **Gross loans and advances (Note 17)** | **709.249.323** | **780.896.617** |
| Provision for impairment of loans and advances (Note 17) | (152.807.820) | (147.720.308) |
| **Net loans and advances to customers** | **556.441.503** | **633.176.399** |
| *Loans and advances to subsidiaries* | | |
| Neither past-due nor impaired | - | - |
| Past-due but not impaired | - | - |
| Impaired | 17.483.094 | 3.924.188 |
| **Gross loans and advances to subsidiaries (Note 17)** | **17.483.094** | **3.924.188** |
| Provision for impairment of loans and advances to subsidiaries (Note 17) | (3.781.961) | (2.590.387) |
| **Net Loans and advances to subsidiaries** | **13.701.133** | **1.333.801** |
| **Net Loans and advances to customers and subsidiaries** | **570.142.636** | **634.510.110** |

**a. Loans and advances neither past due nor impaired**
The following table analyses the Bank's loans and advances that were neither past due nor impaired, by internal credit rating category.

| | Individuals € | Large entities & organisations € | Small and medium size enterprises € | Total € |
|---|---|---|---|---|
| **2016** | | | | |
| Credit rating category: | 50.436.928 | 9.060.138 | 168.986.709 | 228.483.775 |
| Low risk | 8.910.887 | 4.451.164 | 28.743.755 | 42.105.806 |
| Medium risk | **59.347.815** | **13.511.302** | **197.730.464** | **270.589.581** |
| **2015** | | | | |
| Credit rating category: | | | | |
| Low risk | 68.723.993 | 14.298.182 | 216.351.192 | 299.373.367 |
| Medium risk | 5.613.963 | 3.981.647 | 37.961.814 | 47.557.424 |
| | **74.337.956** | **18.279.829** | **254.313.006** | **346.930.791** |

# Notes to the financial statements
# for the year ended 31 December 2016

### 34. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

**Loans and advances (continued)**

**b. Loans and advances past-due but not impaired**

Advances less than 90 days past-due are not considered impaired, unless there are indications to the contrary.

The following table presents the ageing analysis per category of loans and advances which were past-due but not impaired as at the balance sheet date, as well as the estimated fair value of collateral held.

| | Individuals € | Large entities & organisations € | Small and medium enterprises € | Total € |
|---|---|---|---|---|
| **2016** | | | | |
| 1 to 30 days past-due (1) | 23.357.781 | 10.762.235 | 88.216.187 | 122.336.203 |
| 31 to 60 days past-due | 4.301.220 | - | 5.223.590 | 9.524.810 |
| 61 to 90 days past-due | 3.388.624 | - | 1.827.348 | 5.215.972 |
| More than 90 days past-due (2) | 8.825.520 | - | 6.130.784 | 14.956.304 |
| Past-due but not impaired loans and advances | **39.873.145** | **10.762.235** | **101.397.909** | **152.033.289** |
| Fair value of collateral | **32.146.461** | **441.992** | **88.689.076** | **121.277.529** |
| **2015** | | | | |
| 1 to 30 days past-due (1) | 20.520.823 | 4.478.653 | 87.164.679 | 112.164.155 |
| 31 to 60 days past-due | 3.800.831 | - | 3.664.305 | 7.465.136 |
| 61 to 90 days past-due | 3.807.619 | - | 5.226.779 | 9.034.398 |
| More than 90 days past-due (2) | 16.260.268 | - | 18.849.905 | 35.110.173 |
| Past-due but not impaired loans and advances | **44.389.541** | **4.478.653** | **114.905.668** | **163.773.862** |
| Fair value of collateral | **34.814.898** | **955.691** | **89.736.696** | **125.507.285** |

(1) Loans and advances which are 1 to 30 days past due include advances of €106.184.164 (2015: €102.394.159) that were past due for one day on the last day of the year.

(2) The Bank has not proceeded to impair the advances in this category that are more than 90 days past-due due to the existence of sufficient collaterals and future expected payments. The Management expects that the majority of past-due but not impaired advances will be repaid; nevertheless, collective impairment provisions are recognised for these advances based on their credit risk characteristics.

The fair value of collaterals is determined using generally accepted valuation techniques, which include market price comparisons. Valuations are performed by independent third party valuation professionals and the fair values are amended using official, publicised price indices for property.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

**Credit risk (continued)**

**Loans and advances (continued)**

**c. Loans and advances which have been impaired**

The following table presents loans and advances which have been individually impaired, as well as the estimated fair value of collateral pledged, for each category.

Full provision is made for "conditional write-offs" of loans and advances and the categorisation of these loans and advances as performing/non-performing depends on the categorisation of the remaining advances of the specific debtor.

| | Individuals<br>€ | Large entities & organisations<br>€ | Small and medium enterprises<br>€ | Total<br>€ |
|---|---|---|---|---|
| **2016** | | | | |
| Loans and advances individually impaired | 86.908.695 | - | 199.717.758 | 286.626.453 |
| Loans and advances to subsidiaries individually impaired | - | - | 17.483.094 | 17.483.094 |
| **Total** | **86.908.695** | **-** | **217.200.852** | **304.109.547** |
| Fair value of collateral | **36.465.501** | **-** | **113.602.841** | **150.068.342** |
| **2015** | | | | |
| Loans and advances individually impaired | 78.827.933 | 20.998.168 | 170.365.863 | 270.191.964 |
| Loans and advances to subsidiaries individually impaired | - | - | 3.924.188 | 3.924.188 |
| Total | **78.827.933** | **20.998.168** | **174.290.051** | **274.116.152** |
| Fair value of collateral | **38.498.244** | **11.198.996** | **86.653.290** | **136.350.530** |

An amount of €244.188.314 (2015: €260.097.809) are more than 90 days past-due.

During 2016 the Bank wrote-off advances amounting to €15.817.932 (2015: €4.977.368).

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

**Collateral and other credit enhancements obtained**
As at 31 December 2016 the Bank held investment properties and financial assets at fair value through profit or loss acquired in satisfaction debt of €17.821 thousand (Note 23) and €11.860 thousand (Note 19) respectively.

The Bank has granted loans to its subsidiaries in order to acquire collaterals held as security in satisfaction of debt due to the Bank. As at 31 December 2016 the loans granted for this purpose amounted to €13.701 thousand net of impairment provisions of €3.782 thousand (2015: balance €1.334 thousand net of impairment provisions of €2.590 thousand).

The following table refers to the repossessed assets acquired through its subsidiaries.

| Year of acquisition | Forced sale value 31/12/2016 | Market Value 31/12/2016 | Balance of loans and advances as at 31/12/2016 | Impairment provisions | Net loans and advances as at 31/12/2016 |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| 2011 | 495.000 | 537.958 | 1.333.784 | 797.377 | 536.407 |
| 2012 | 642.000 | 781.302 | 2.628.663 | 1.849.445 | 779.218 |
| 2016 | 8.908.000 | 12.387.730 | 13.520.647 | 1.135.139 | 12.385.508 |
| | **10.045.000** | **13.706.990** | **17.483.094** | **3.781.961** | **13.701.133** |

| Year of acquisition | Forced sale value 31/12/2015 | Market Value 31/12/2015 | Balance of loans and advances as at 31/12/2015 | Impairment provisions | Net loans and advances as at 31/12/2015 |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| 2011 | 495.000 | 660.000 | 1.312.112 | 752.165 | 559.947 |
| 2012 | 642.000 | 915.000 | 2.612.076 | 1.838.222 | 773.854 |
| | **1.137.000** | **1.575.000** | **3.924.188** | **2.590.387** | **1.333.801** |

During the years 2016 and 2015 there were no substantial disposals of repossessed collaterals.

**Placements with other Banks**
The following table presents the placements with other banks (Note 15) categorised according to their credit rating as per the international credit rating agency, Moody's, as at 31 December 2016 and 2015 apart from (i) which was categorised as per the Capital Intelligence Agency rating.

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Credit rating Aa2 | - | 961.361 |
| Credit rating A1 | 13.076.171 | 6.831.862 |
| Credit rating A2 | 48.061 | 16.741.110 |
| Credit rating A3 | 18.613.009 | - |
| Credit rating BB- (i) | 50.001.389 | - |
| Credit rating Baa2 | - | - |
| Credit rating Ba1 | 1.651.803 | 2.254.054 |
| Credit rating Ba3 | 138 | - |
| Credit rating Caa1 | - | - |
| Credit rating Caa2 | 999.822 | 1.000.000 |
| Credit rating Caa3 | 2.724.231 | 4.910.795 |
| | **87.114.624** | **32.699.182** |

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

**Receivables from debt securities**

The following table presents the receivables from debt securities (Note 16) categorised according to their credit rating as per the international credit rating agency, Moody's, as at 31 December 2016 and 2015.

| | 2016 € | 2015 € |
|---|---|---|
| Credit rating B1 | 44.288.759 | 36.517.952 |
| | **44.288.759** | **36.517.952** |

**Financial assets available for sale**

The following table presents investments in bond securities (Note 18) categorised according to their rating as per the international credit rating agency, Moody's, as at 31 December 2016 and 2015.

| | 2016 € | 2015 € |
|---|---|---|
| **Investments in bonds** | | |
| Credit rating Aaa | 63.113.425 | 76.343.530 |
| Credit rating Aa1 | - | 15.434.303 |
| Credit rating Aa3 | 10.961.357 | - |
| | **74.074.782** | **91.777.833** |

**Concentration of risk in financial assets subject to credit risk**

**a) Geographical sector**

The following table presents the carrying amount of the Bank's financial assets which are subject to credit risk by geographical sector. For the purposes of this table, the distribution of the exposure on financial assets in the geographical sectors has been performed based on the relevant counterparties' country of operation.

| | Cyprus € | Greece € | Other countries € | Total € |
|---|---|---|---|---|
| **2016** | | | | |
| Deposits with the Central Bank (Note 14) | 334.346.412 | - | - | 334.346.412 |
| Placements with other banks (Note 15) | 999.822 | 2.669.399 | 83.445.403 | 87.114.624 |
| Receivables from debt securities (Note 16) | 44.288.759 | - | - | 44.288.759 |
| Loans and Advances to subsidiaries (Note 17) | 13.701.133 | | | 13.701.133 |
| Loans and Advances to customers (Note 17) | 495.035.062 | 11.996.912 | 49.409.529 | 556.441.503 |
| Available for sale financial assets (Note 18) | 10.961.357 | - | 63.113.425 | 74.074.782 |
| Derivative financial instruments (Note 33) | 493.198 | 575.776 | - | 1.068.974 |
| Other Assets (Note 24) | 1.132.971 | - | - | 1.132.971 |
| | **900.958.714** | **15.242.087** | **195.968.357** | **1.112.169.158** |
| Credit risk exposure from off balance sheet assets: | | | | |
| Credit guarantees (Note 32) | 324.453 | - | - | 324.453 |
| Letters of guarantee (Note 32) | 12.424.151 | 138.029 | 217.368 | 12.779.548 |
| Unutilised credit limits (Note 32) | 61.238.490 | 165.942 | 1.032.792 | 62.437.224 |
| Total off balance sheet assets | **73.987.094** | **303.971** | **1.250.160** | **75.541.225** |
| **Total on and off balance sheet assets as at 31 December 2016** | **974.945.808** | **15.546.058** | **197.218.517** | **1.187.710.383** |

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### Concentration of risk in financial assets subject to credit risk (continued)

### a) Geographical sector (continued)

| | Cyprus<br>€ | Greece<br>€ | Other countries<br>€ | Total<br>€ |
|---|---|---|---|---|
| **2015** | | | | |
| Deposits with the Central Bank (Note 14) | 175.036.079 | - | - | 175.036.079 |
| Placements with other banks (Note 15) | 1.999.967 | 3.898.830 | 26.800.385 | 32.699.182 |
| Receivables from debt securities (Note 16) | 36.517.952 | - | - | 36.517.952 |
| Loans and Advances to subsidiaries (Note 17) | 1.333.801 | - | - | 1.333.801 |
| Loans and Advances to customers (Note 17) | 564.563.923 | 13.457.445 | 55.154.941 | 633.176.309 |
| Available for sale financial assets (Note 18) | - | - | 91.777.833 | 91.777.833 |
| Derivative financial instruments (Note 33) | 4.662 | 498.897 | 820 | 504.379 |
| Other Assets | 2.572.321 | - | - | 2.572.321 |
| | **782.028.705** | **17.855.172** | **173.733.979** | **973.617.856** |
| Credit risk exposure from off balance sheet assets: | | | | |
| Credit guarantees (Note 32) | 1.269.566 | - | - | 1.269.566 |
| Letters of guarantee (Note 32) | 10.224.242 | 512.271 | 437.547 | 11.174.060 |
| Unutilised credit limits (Note 32) | 59.523.716 | 186.418 | 1.374.855 | 61.084.989 |
| Total off balance sheet assets | **71.017.524** | **698.689** | **1.812.402** | **73.528.615** |
| **Total on and off balance sheet assets as at 31 December 2015** | **853.046.229** | **18.553.861** | **175.546.381** | **1.047.146.471** |

### b) Business sector

The table below presents the carrying amount of the Bank's financial assets that are subject to credit risk based on the business sector in which the counterparty operates.

| | Industrial<br>€ | Tourism<br>€ | Commerce<br>€ | Real estate and Construction<br>€ | Financial Institutions<br>€ | Governments<br>€ | Other sectors<br>€ | Total<br>€ |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| Deposits with Central Bank (Note 14) | - | - | - | - | 334.346.412 | - | - | 334.346.412 |
| Placements with other banks (Note 15) | - | - | - | - | 87.114.624 | - | - | 87.114.624 |
| Receivables from debt securities (Note 16) | - | - | - | - | - | 44.288.759 | - | 44.288.759 |
| Advances (Note 17): | | | | | | | | |
| Advances to individuals | 11.711 | 739 | 16.950 | 28.751 | - | - | 137.825.316 | 137.883.467 |
| Advances to businesses: | | | | | | | | |
| Large entities & organisations | 1.436.426 | - | 15.379.841 | 4.317.448 | - | - | 1.969.520 | 23.103.235 |
| Small and medium size enterprises | 14.585.654 | 32.029.043 | 59.997.507 | 121.618.475 | 22.016.330 | 5.044.503 | 140.163.289 | 395.454.801 |
| Advances to subsidiaries | - | - | - | - | - | - | 13.701.133 | 13.701.133 |
| Available for sale financial assets (Note 19) | - | - | - | - | - | 74.074.782 | - | 74.074.782 |
| Derivative financial instruments (Note 33) | - | - | - | - | 1.046.254 | - | 22.720 | 1.068.974 |
| Other assets | - | - | - | - | - | - | 1.132.971 | 1.132.971 |
| | 16.033.791 | 32.029.782 | 75.394.298 | 125.964.674 | 444.523.620 | 123.408.044 | 294.814.949 | 1.112.169.158 |
| **Credit Risk exposure from off balance sheet assets:** | | | | | | | | |
| Credit guarantees (Note 32) | - | - | 324.453 | - | - | - | - | 324.453 |
| Letters of guarantee (Note 32) | 1.206.441 | 30.245 | 1.218.750 | 6.601.423 | 642.541 | - | 3.080.148 | 12.779.548 |
| Unutilised credit limits (Note 32) | 11.408.019 | 2.005.172 | 10.962.466 | 7.671.219 | 760.209 | 543.790 | 29.086.349 | 62.437.224 |
| | 12.614.460 | 2.035.417 | 12.505.669 | 14.272.642 | 1.402.750 | 543.790 | 32.166.497 | 75.541.225 |
| **Total on and off balance sheet assets 31 December** | **28.648.251** | **34.065.199** | **87.899.967** | **140.237.316** | **445.926.370** | **123.951.834** | **326.981.446** | **1.187.710.383** |

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### Concentration of risk in financial assets subject to credit risk (continued)

### b) Business sector (continued)

| | Industrial | Tourism | Commerce | Real estate and Construction | Financial Institutions | Governments | Other sectors | Total |
|---|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € | € |
| **2015** | | | | | | | | |
| Deposits with Central Bank (Note 14) | - | - | - | - | 175.036.079 | - | - | 175.036.079 |
| Placements with other banks (Note 15) | - | - | - | - | 32.699.182 | - | - | 32.699.182 |
| Receivables from debt securities (Note 16) | - | - | - | - | - | 36.517.952 | - | 36.517.952 |
| Advances (Note 17): | | | | | | | | |
| Advances to individuals | - | - | - | - | - | - | 148.979.338 | 148.979.338 |
| Advances to businesses: | | | | | | | | |
| Large entities & organisations | 2.893.096 | - | 19.594.852 | 4.429.942 | 4.546.609 | - | 1.882.441 | 33.346.940 |
| Small and medium size enterprises | 18.222.370 | 42.776.279 | 67.637.221 | 136.783.098 | 36.188.073 | 5.412.354 | 143.830.636 | 450.850.031 |
| Advances to subsidiaries | - | - | - | - | - | - | 1.333.801 | 1.333.801 |
| Available for sale financial assets (Note 19) | - | - | - | - | - | 91.777.833 | - | 91.777.833 |
| Derivative financial instruments (Note 33) | - | - | - | - | 4.611 | - | 499.768 | 504.379 |
| Other assets | - | - | - | - | - | - | 2.572.321 | 2.572.321 |
| | 21.115.466 | 42.776.279 | 87.232.073 | 141.213.040 | 248.474.554 | 133.708.139 | 299.098.305 | 973.617.856 |
| **Credit Risk exposure from off balance sheet assets:** | | | | | | | | |
| Credit guarantees (Note 32) | 187.840 | - | 1.046.026 | - | - | - | 35.700 | 1.269.566 |
| Letters of guarantee (Note 32) | 1.362.377 | 30.750 | 1.698.598 | 3.851.635 | 1.073.507 | - | 3.157.193 | 11.174.060 |
| Unutilised credit limits (Note 32) | 6.950.184 | 1.998.234 | 10.974.139 | 7.483.635 | 5.669.337 | 484.683 | 27.524.777 | 61.084.989 |
| Total off balance sheet assets | 8.500.401 | 2.028.984 | 13.718.763 | 11.335.270 | 6.742.844 | 484.683 | 30.717.670 | 73.528.615 |
| **Total on and off balance sheet assets 31 December** | **29.615.867** | **44.805.263** | **100.950.836** | **152.548.310** | **255.217.398** | **134.192.822** | **329.815.975** | **1.047.146.471** |

*Risk of counterparty banks*

The Bank runs the risk of loss of capital due to the possibility that a counterparty bank will delay or default on its payments on any existing or contingent liabilities.

Through its daily operations, the bank enters into transactions with other banks and financial institutions. By entering into these transactions the Bank runs the risk of incurring losses in the event of late repayments or default of existing and contingent liabilities of the counterparty banks.

The limits set for counterparty banks reflect the level of risk that is considered acceptable and are then distributed to the Treasury Department or to any other service departments where this kind of risk exists, based on the needs and volume of transactions within each service department. Generally, the limits are determined by banking sector evaluation models, as well as by the requirements of the supervisory authorities.

The credit limit set for each counterparty is divided into sub-limits covering placements, investments, foreign exchange trading as well as the daily clearing limit. Actual positions are monitored against the limits on a daily basis and in real time.

*Country risk*

The Bank runs the risk of losing capital due to possible political, economic and other events in a particular country where the Bank's capital or liquid funds have been placed or invested in local banks and financial institutions.

All countries are evaluated based on their size, economic data and country prospects and credit-worthiness rates provided by international credit rating agencies (Fitch, Moody's, Standard & Poor's). Actual country positions are monitored against their limits on a daily basis. Review of the limits is performed at least once a year with smaller countries with a lower degree of credit-worthiness going through a more extended and more frequent analysis and evaluation, where appropriate.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Credit risk (continued)

### b) Business sector (continued)

*Credit risk concentration*
There are restrictions to the concentration of credit risk as per the Cyprus Banking Law and the relevant Capital Requirements Regulation (CRR) issued by the European Union. According to these restrictions, exposures to customers or group of connected customers, other than institutions, shall not exceed 25% of a bank's own funds, after taking into account the effect of credit risk mitigation in accordance with articles 399-403 of CRR. Exposures to institutions shall not exceed 25% of a bank's capital base or €150m whichever is higher. Where the amount of €150m is higher than 25% of a bank's own funds, after taking into account the effect of credit risk mitigation techniques, the limit shall not exceed 100% of a bank's own funds. As at 31 December 2016 there were no violations of the CRR Large Exposure Limits, however, there were some minor violations in the first and third quarters of 2016 for which the Central Bank of Cyprus was notified immediately. For the period ended 31 March 2016, there was a slight violation with the exposures of Piraeus Bank SA Group due to the 2015 post year-end audit adjustments, which was fully rectified in April 2016. For the period ended 30 September 2016, there were two violations, where the exposures of two corporate customers exceeded the 25% maximum lending limit. The violations were rectified upon the completion of the agreement of Piraeus Bank SA with Holding M Sehnaoui on 28 December 2016 resulting in an injection of €40m primary capital.

### Interest rate risk
Interest rate risk is the risk that the value of financial instruments and net interest income will decrease due to adverse movements in market interest rates. Interest rate risk arises due to timing differences in the re-pricing of interest rates or the maturity of assets and liabilities. Interest rate risk arises mainly from interest bearing banking activities and the Bank's loan portfolio, and is hedged to a large extent by acquiring placements in the inter-bank market.

With regards to balance sheet items in the Bank's portfolio as at 31 December 2016 a parallel increase in market interest rates across all currencies by 200 basis points would result in an decrease in loss before tax by €0,5 m (2015: €0,7m). A parallel decrease in market interest rates by 200 basis points would result in an increase in loss before tax by €0,5m (2015: €0,7m).

The following table summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by interest rate re-pricing date for floating rate items or maturity date for fixed rate items. The table also presents the net interest rate risk position.

| | Up to 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | Over 5 years | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| **2016** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits with Central Bank | 334.346.412 | - | - | - | - | 10.982.873 | 345.329.285 |
| Placements with other Banks | 37.113.235 | 50.001.389 | - | - | - | - | 87.114.624 |
| Receivables from debt securities | 19.997.444 | 12.495.721 | - | 11.795.594 | - | - | 44.288.759 |
| Loans and advances to customers | 170.117.269 | 194.992.809 | 84.991.661 | 57.463.777 | 48.875.987 | - | 556.441.503 |
| Loans and advances to subsidiaries | 784.589 | 12.916.544 | - | - | - | - | 13.701.133 |
| Available for sale financial assets | - | - | 63.113.425 | 10.961.357 | - | - | 74.074.782 |
| Derivative financial instrument | - | - | - | - | - | 1.068.974 | 1.068.974 |
| Other assets | - | - | - | - | - | 1.132.971 | 1.132.971 |
| **Total** | **562.358.949** | **270.406.463** | **148.105.086** | **80.220.728** | **48.875.987** | **13.184.818** | **1.123.152.031** |

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Interest rate risk (continued)

| | Up to 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | Over 5 years | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| **2016** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other banks | 1.579.434 | 658.304 | - | - | - | - | 2.237.738 |
| Customer deposits | 617.366.337 | 147.210.973 | 296.834.550 | 11.509.567 | - | - | 1.072.921.427 |
| Derivative financial instruments | - | - | - | - | - | 1.547.932 | 1.547.932 |
| Other liabilities | - | - | - | - | - | 16.338.507 | 16.338.507 |
| **Total** | **618.945.771** | **147.869.277** | **296.834.550** | **11.509.567** | **-** | **17.886.439** | **1.093.045.604** |
| **Net balance sheet Position** | **(56.586.822)** | **122.537.186** | **(148.729.464)** | **68.711.161** | **48.875.987** | | |

| | Up to 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | Over 5 years | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| **2015** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits with Central Bank | 175.036.079 | - | - | - | - | 9.592.185 | 184.628.264 |
| Placements with other banks | 32.699.182 | - | - | - | - | - | 32.699.182 |
| Receivables from debt securities | 12.935.338 | 23.582.614 | - | - | - | - | 36.517.952 |
| Loans and advances to customers | 203.705.021 | 219.200.597 | 94.849.102 | 64.983.204 | 50.438.385 | - | 633.176.309 |
| Loans and advances to subsidiaries | 777.165 | 556.636 | - | - | - | - | 1.333.801 |
| Available for sale financial assets | - | - | 25.853.243 | 65.924.590 | - | - | 91.777.833 |
| Derivative financial instrument | - | - | - | - | - | 504.379 | 504.379 |
| Other assets | - | - | - | - | - | 2.572.321 | 2.572.321 |
| **Total** | **425.152.785** | **243.339.847** | **120.702.345** | **130.907.794** | **50.438.385** | **12.668.885** | **983.210.041** |
| **Liabilities** | | | | | | | |
| Due to other banks | 1.588.656 | - | 501.698 | - | - | - | 2.090.354 |
| Customer deposits | 477.871.484 | 140.560.400 | 270.658.643 | 69.435.358 | - | - | 958.525.885 |
| Derivative financial instruments | - | - | - | - | - | 130.561 | 130.561 |
| Other liabilities | - | - | - | - | - | 13.724.858 | 13.724.858 |
| **Total** | **479.460.140** | **140.560.400** | **271.160.341** | **69.435.358** | **-** | **13.855.419** | **974.471.658** |
| **Net balance sheet position** | **(54.307.355)** | **102.779.447** | **(150.457.996)** | **61.472.436** | **50.438.385** | | |

### Currency risk

Currency risk is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates. Currency risk arises from a positive or negative open position in a foreign currency, exposing the Bank to changes in the relevant exchange rate. This risk may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or from derivatives.

The Bank enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Bank's Treasury department also enters into spot foreign exchange transactions within predefined and approved limits, as well as transactions in derivatives such as foreign exchange forward contracts and foreign exchange swaps.

The following risk exposure calculation methods and associated limit structures are used for monitoring:

a. Open position by currency – net positive or negative position in each currency.
b. Total net positive or negative position.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Currency risk (continued)

The approved limits are systematically monitored and reviewed and are assessed at least annually. These limits may be modified, according to the strategy of the Bank and the prevailing market conditions.

The table below summarises the Bank's currency risk which stems from open currency positions on 31 December 2016.The analysis below assumes possible scenarios of movements to take place for exchange rates against Euro.

| Currency | Change in exchange rate | 2016 Impact on income statement €000 | 2015 Impact on income statement €000 |
|---|---|---|---|
| United States Dollar | +10% (-10%) | +63 (-63) | +25 (-25) |
| Pound sterling | +10% (-10%) | +6 (-6) | +12 (-12) |
| Swiss Franc | +10% (-10%) | +39 (-39) | +52 (-52) |
| Other currencies | +10% (-10%) | +0 (0) | +36 (-36) |

The following table summarises the Bank's exposure to currency risk. In the table the carrying values of the Bank's assets and liabilities are presented, categorized by currency. The table also presents the notional amount of derivative financial instruments, categorized by currency.

| | Euro € | US Dollar € | Pound sterling € | Swiss Franc € | Other currencies € | Total € |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Assets** | | | | | | |
| Cash and deposits with Central Bank | 344.822.352 | 325.552 | 171.824 | 7.998 | 1.559 | 345.329.285 |
| Receivables from debt securities | 44.288.759 | - | - | - | - | 44.288.759 |
| Placements with other banks | 58.378.395 | 19.168.988 | 1.754.321 | 226.086 | 7.586.834 | 87.114.624 |
| Loans and advances to customers | 497.584.952 | 29.274.848 | 3.720.968 | 25.794.628 | 66.107 | 556.441.503 |
| Loans and advances to subsidiaries | 13.701.133 | - | - | - | - | 13.701.133 |
| Available for sale financial assets | 86.278.630 | - | - | - | - | 86.278.630 |
| Assets at fair value through profit or loss | 11.859.747 | - | - | - | - | 11.859.747 |
| Investments in subsidiaries | 54.054 | - | - | - | - | 54.054 |
| Property, plant and equipment | 24.085.751 | - | - | - | - | 24.085.751 |
| Intangible assets | 189.444 | - | - | - | - | 189.444 |
| Investment properties | 17.820.500 | - | - | - | - | 17.820.500 |
| Deferred tax assets | 7.641.115 | - | - | - | - | 7.641.115 |
| Derivative financial instruments | 200.884 | 866.541 | 1.549 | - | - | 1.068.974 |
| Tax receivable | - | - | - | - | - | - |
| Other assets | 1.835.742 | (129.981) | 72.326 | (231.020) | (414.096) | 1.132.971 |
| **Total assets** | **1.108.741.458** | **49.505.948** | **5.720.988** | **25.797.692** | **7.240.404** | **1.197.006.490** |
| **Liabilities** | | | | | | |
| Due to other banks | 2.199.090 | 38.647 | - | - | - | 2.237.737 |
| Customer deposits | 868.056.618 | 169.131.852 | 25.000.643 | 277.636 | 10.454.678 | 1.072.921.427 |
| Derivative financial instruments | 854.094 | 636.401 | 57.438 | - | - | 1.547.933 |
| Current tax liabilities | 94.245 | - | - | - | - | 94.245 |
| Deferred tax liabilities | 883.393 | - | - | - | - | 883.393 |
| Other liabilities | 14.106.529 | 968.881 | 1.130.576 | 6.175 | 126.346 | 16.338.507 |
| **Total liabilities** | **886.193.969** | **170.775.781** | **26.188.657** | **283.811** | **10.581.024** | **1.094.023.242** |
| **Equity** | **102.983.248** | **-** | **-** | **-** | **-** | **102.983.248** |
| **Total equity and liabilities** | **989.177.217** | **170.775.781** | **26.188.657** | **283.811** | **10.581.024** | **1.197.006.490** |
| **Net balance sheet position** | **119.564.241** | **(121.269.833)** | **(20.467.669)** | **25.513.881** | **(3.340.620)** | **-** |
| **Net notional amount of derivative financial instruments** | **(118.489.873)** | **120.640.705** | **20.408.297** | **(25.899.749)** | **3.340.620** | **-** |
| **Net foreign exchange position** | **1.074.368** | **(629.128)** | **(59.372)** | **(385.868)** | **-** | **-** |

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Currency risk (continued)

| | Euro | US Dollar | Pound sterling | Swiss Franc | Other currencies | Total |
|---|---|---|---|---|---|---|
| | € | € | € | € | € | € |
| **2015** | | | | | | |
| **Assets** | | | | | | |
| Cash and deposits with Central Bank | 184.131.185 | 311.592 | 180.954 | 1.109 | 3.424 | 184.628.264 |
| Receivables from debt securities | 36.517.952 | - | - | - | - | 36.517.952 |
| Placements with other banks | 10.654.131 | 11.249.304 | 3.398.379 | 1.000.293 | 6.397.075 | 32.699.182 |
| Loans and advances to customers | 572.516.987 | 25.772.702 | 4.680.779 | 30.137.637 | 68.204 | 633.176.309 |
| Loans and advances to subsidiaries | 1.333.801 | - | - | - | - | 1.333.801 |
| Available for sale financial assets | 103.942.853 | - | - | - | - | 103.942.853 |
| Assets at fair value through profit or loss | 12.049.250 | - | - | - | - | 12.049.250 |
| Investments in subsidiaries | 56.054 | - | - | - | - | 56.054 |
| Property, plant and equipment | 25.300.280 | - | - | - | - | 25.300.280 |
| Intangible assets | 218.145 | - | - | - | - | 218.145 |
| Investment properties | 6.602.650 | - | - | - | - | 6.602.650 |
| Deferred tax assets | 5.498.491 | - | - | - | - | 5.498.491 |
| Derivative financial instruments | 2.161 | 449.856 | 2.130 | - | 50.232 | 504.379 |
| Tax receivable | 87.420 | - | - | - | - | 87.420 |
| Other assets | 1.599.638 | (343.394) | 237.076 | 1.890.123 | (811.122) | 2.572.321 |
| **Total assets** | **960.510.998** | **37.440.060** | **8.499.318** | **33.029.162** | **5.707.813** | **1.045.187.351** |
| | | - | - | - | - | |
| **Liabilities** | | | | | | |
| Due to other banks | 2.051.135 | 38.113 | - | - | 1.106 | 2.090.354 |
| Customer deposits | 781.327.161 | 147.666.665 | 21.802.960 | 350.924 | 7.378.175 | 958.525.885 |
| Derivative financial instruments | 128.080 | 1.056 | - | 41 | 1.384 | 130.561 |
| Current tax liabilities | 72.166 | - | - | - | - | 72.166 |
| Deferred tax liabilities | 1.064.617 | - | - | - | - | 1.064.617 |
| Other liabilities | 7.319.420 | 3.465.641 | 185.506 | 836.414 | 1.917.877 | 13.724.858 |
| **Total liabilities** | **791.962.579** | **151.171.475** | **21.988.466** | **1.187.379** | **9.298.542** | **975.608.441** |
| **Equity** | **69.578.910** | **-** | **-** | **-** | **-** | **69.578.910** |
| **Total equity and liabilities** | **861.541.489** | **151.171.475** | **21.988.466** | **1.187.379** | **9.298.542** | **1.045.187.351** |
| **Net balance sheet position** | **98.969.509** | **(113.731.415)** | **(13.489.148)** | **31.841.783** | **(3.590.729)** | **-** |
| **Net notional amount of derivative financial instruments** | **(99.502.310)** | **113.985.380** | **13.609.607** | **(31.326.248)** | **3.233.571** | **-** |
| **Net foreign exchange position** | **(532.801)** | **253.965** | **120.459** | **515.535** | **(357.158)** | **-** |

### Risk from changes in the prices of equities and securities

The risk in relation to the prices of equity securities that are held by the Bank arises from possible adverse changes in market prices of equity securities. The Bank invests in listed and non-listed equity shares which, depending on the purpose of the investment, are classified in the appropriate portfolio. Currently all investments in equity securities, except for investments in subsidiaries, are classified as available for sale financial assets. European government bonds, including Cyprus government bonds listed in an active market, are also classified under this category.

In a scenario where the fair value of all financial assets available for sale is reduced by 5%, the revaluation loss on financial assets available for sale will be approximately €4,31m (2015: €5,20m).

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Risk from changes in the prices of equities and securities (continued)

As at 31 December 2016 the investment in government bonds (see Note 18) is exposed to price fluctuations of bond instruments. A decrease/increase in the market price of the bonds by 5% as at 31 December 2016 would result in a decrease/increase in net equity by €3,7m (2015: €4,6m).

The fair value of the investment in Atlantic Insurance Company Limited is valued based on a valuation model. A decrease/increase in the value of the share by 10% as at 31 December 2016 would result in a decrease/increase in net equity by €1,19m (2015: €1,19m).

The Bank is not exposed to commodities' price risk.

### Liquidity risk

Liquidity risk is the risk that the Bank cannot find sufficient liquid funds in order to meet its immediate liabilities, without incurring significant economic costs.

The above risk is monitored and controlled by the Treasury Department, Finance Division and Risk Management Department. The conformity with the regulations set by the applicable supervisory authorities for liquidity indices and mismatched maturity indices both in Euro and in foreign currencies, and with internal limits are monitored on a daily basis.

The monitoring and management of liquidity risk is achieved through the use and monitoring of the following:

a. Balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities.
b. Maturity mismatch indices between assets and liabilities for periods of up to one month.
c. Available liquid assets to customer deposits ratios, broken down into Euro and foreign currencies.
d. Liquidity Coverage Ratio based on EU regulation 2015/61 regarding the coverage requirement of liquidity risk.

Despite the fact that some deposits can be withdrawn without notice if requested, the diversity in number and type of deposits limits significant fluctuations and consequently contributes in its majority to a stable depository base.

Overall, the Bank's EUR liquidity regulatory ratios were at all times for the year ended 31 December 2016 within the corresponding CBC limits and there were no violations, whereas the FCY liquidity regulatory ratio was in breach during the first three months of 2016, due to customer withdrawals and during the first week of April 2016 due to the non-eligibility of the CY Government Bonds and T-Bills (after Cyprus' exit from the Troika programme).

As at 31 December 2016, at the date of this annual report and throughout the year, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Liquidity risk (continued)

*Cash flows from non-derivative financial instruments*

The following liquidity risk table analyses the financial assets and liabilities of the Bank into respective time bands based on the remaining period from the balance sheet date to the maturity date.

The table below presents the contractual undiscounted cash flows. Balances maturing within one year are assumed to be equal to their carrying values since the discounting effect is not considered significant.

| | Up to 1 month | Up to 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| | € | € | € | € | € | € |
| **2016** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and deposits with Central Bank | 345.329.285 | - | - | - | - | 345.329.285 |
| Placements with other banks | 37.113.235 | 50.001.389 | - | - | - | 87.114.624 |
| Receivables from debt securities | 19.997.444 | 12.495.721 | - | 11.795.594 | - | 44.288.759 |
| Loans and advances to customers | 117.901.685 | 1.667.050 | 85.837.487 | 93.099.204 | 319.419.851 | 617.925.277 |
| Loans and advances to subsidiaries | 5.371 | - | 1.310.251 | 13.335.429 | - | 14.651.051 |
| Available for sale financial assets | - | - | 69.069.644 | 10.961.357 | 6.247.629 | 86.278.630 |
| Other assets | 1.132.971 | - | - | - | - | 1.132.971 |
| | **521.479.991** | **64.164.160** | **156.217.382** | **129.191.584** | **325.667.480** | **1.196.720.597** |
| **Financial liabilities** | | | | | | |
| Due to other banks | 1.579.434 | 658.304 | - | - | - | 2.237.738 |
| Customer deposits | 617.407.127 | 147.591.002 | 300.216.133 | 12.006.218 | - | 1.077.220.480 |
| Other liabilities | 16.338.507 | - | - | - | - | 16.338.507 |
| | **635.325.068** | **148.249.306** | **300.216.133** | **12.006.218** | **-** | **1.095.796.725** |
| **Net liquidity position** | **(113.845.077)** | **(84.085.146)** | **(143.998.751)** | **117.185.366** | **325.667.480** | **100.923.872** |
| **2015** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and deposits with Central Bank | 184.628.264 | - | - | - | - | 184.628.264 |
| Placements with other banks | 32.699.182 | - | - | - | - | 32.699.182 |
| Receivables from debt securities | 12.935.338 | 23.582.614 | - | - | - | 36.517.952 |
| Loans and advances to customers | 124.658.484 | 8.650.415 | 161.239.985 | 219.439.358 | 172.592.283 | 686.580.525 |
| Loans and advances to subsidiaries | 5.174 | - | 1.328.626 | - | - | 1.333.800 |
| Available for sale financial assets | - | - | 25.853.243 | 65.806.406 | 12.165.020 | 103.824.669 |
| Other assets | 2.572.321 | - | - | - | - | 2.572.321 |
| | **357.498.763** | **32.233.029** | **188.421.854** | **285.245.764** | **184.757.303** | **1.048.156.713** |
| **Financial liabilities** | | | | | | |
| Due to other banks | 1.589.337 | - | 501.017 | - | - | 2.090.354 |
| Customer deposits | 477.922.667 | 140.969.992 | 273.937.492 | 73.198.329 | - | 966.028.480 |
| Other liabilities | 13.724.858 | - | - | - | - | 13.724.858 |
| | **493.236.862** | **140.969.992** | **274.438.509** | **73.198.329** | **-** | **981.843.692** |
| **Net liquidity position** | **(135.738.099)** | **(108.736.963)** | **(86.016.655)** | **212.047.435** | **184.757.303** | **66.313.021** |

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Liquidity risk (continued)

*Cash flows from derivative financial instruments that are settled on a net basis*

Cash flows from derivative financial instruments are settled on a net basis in the respective period, based on the remaining period from the balance sheet date to their maturity. The maturity of all the derivative financial instruments is less than twelve months.

Information on the fair and theoretical values of derivatives is presented in Note 33.

### Fair value of assets and liabilities

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Some differences may arise between the carrying value and the fair value. The definition of fair value assumes that the Bank will continue its normal operations without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms which would bring about losses to the Bank. Generally accepted methods of determining fair value include reference to quoted market prices and transactions for similar financial instruments.

With reference to the above, the carrying value of all the Bank's assets and liabilities is not materially different from their fair value.

*Financial assets not measured at fair value*

a) Placements with/due to other banks

Placements with/due to other banks include inter-bank placements and other receivables. The fair value of floating as well as fixed rate placements closely approximates their carrying value since their average maturity is in most cases up to three months.

b) Loans and advances

Loans and advances are presented net of the relevant provisions for impairment. The vast majority of advances accrue interest at floating rates hence their fair value approximates their carrying value.

c) Deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed as well as floating interest bearing deposits closely approximates their carrying value since their average maturity is less than one year.

The Bank uses the following hierarchy to classify and disclose fair value:

Level 1: investments measured at fair value using quoted prices in active markets for similar investments;

Level 2: investments measured at fair value using valuation models in which all elements that significantly influence fair value are based on observable market data either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: investments measured at fair value using valuation models in which elements that significantly influence fair value are not based on observable market data.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Fair value of assets and liabilities (continued)

The analysis of financial instruments measured at fair value per tier classification is presented below:

| | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial Assets** | | | | |
| Available for sale financial assets | 74.074.782 | - | 12.203.848 | 86.278.630 |
| Financial assets at fair value through profit or loss | - | - | 11.859.747 | 11.859.747 |
| Derivative financial instruments | - | 1.068.974 | - | 1.068.974 |
| | **74.074.782** | **1.068.974** | **24.063.595** | **99.207.351** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 1.547.932 | - | 1.547.932 |
| | **-** | **1.547.932** | **-** | **1.547.932** |

| | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial Assets** | | | | |
| Available for sale financial assets | 91.777.833 | - | 12.165.020 | 103.942.853 |
| Financial assets at fair value through profit or loss | - | - | 12.049.250 | 12.049.250 |
| Derivative financial instruments | - | 504.379 | - | 504.379 |
| | **91.777.833** | **504.379** | **24.214.270** | **116.496.482** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | 130.561 | - | 130.561 |
| | **-** | **130.561** | **-** | **130.561** |

There were no significant transfers between levels during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise of government bonds listed in Foreign Stock Exchange and classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example equity instruments not listed in an active market) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Adjusted comparable multiples of market prices to book value.
- Other techniques, such as discounted cash flow analysis.

# Notes to the financial statements
# for the year ended 31 December 2016

### 34. MANAGEMENT OF FINANCIAL RISKS (continued)

**Fair value of assets and liabilities (continued)**

The following table presents the changes in Level 3 instruments for the year ended 31 December 2016:

| | Debt instruments € | Equity instruments € | Total € |
|---|---|---|---|
| 1 January 2016 | 12.049.250 | 12.165.020 | 24.214.270 |
| Additions | - | 38.828 | 38.828 |
| Disposals | (923.000) | - | (923.000) |
| Transfers to Level 3 | - | - | - |
| Gain / (Loss) recognized in the income statement | 733.497 | - | 733.497 |
| **31 December 2016** | 11.859.747 | 12.203.848 | 24.063.595 |
| **Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under gains / losses** | - | - | - |
| Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the reporting period | 733.497 | - | 733.497 |

The following table presents the changes in Level 3 instruments for the year ended 31 December 2015:

| | Debt instruments € | Equity instruments € | Total € |
|---|---|---|---|
| 1 January 2015 | - | 12.710.033 | 12.710.033 |
| Additions | 12.049.250 | - | 12.049.250 |
| Disposals | - | - | - |
| Transfers to Level 3 | - | - | - |
| Gain / (Loss) recognized in the income statement | - | (545.013) | (545.013) |
| **31 December 2016** | 12.049.250 | 12.165.020 | 24.214.270 |
| **Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under gains / losses** | - | - | - |
| Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the reporting period | - | (543.013) | (543.013) |

Refer to Notes 3, 22 and 23 for fair value disclosures of property, plant and equipment and investment properties, which are also measured at fair value.

# Notes to the financial statements for the year ended 31 December 2016

## 34. MANAGEMENT OF FINANCIAL RISKS (continued)

### Capital Management

The main objective of the bank's capital management function is to ensure compliance with the relevant supervisory capital requirements and to maintain healthy capital adequacy ratios which can support the bank's growth and maximise shareholder value.

The capital adequacy regulations which govern the activities of the Bank are determined by the Central Bank of Cyprus (CBC) and the European Central Bank (ECB).

During 2016 the Bank complied with the minimum capital requirements (Pillar I and Pillar II) during 2016 except for the period from 03/08/2016 to28/12/2016. ECB was notified accordingly and the Bank's compliance with minimum capital requirements was restored upon the completion of the agreement of Piraeus Bank S.A. with Holding M. Sehnaoui for the sale of the bank's shares with a simultaneous injection of €40M primary capital in the Bank. As a result as at 31 December 2016 and at the date of these financial statements the Bank was in full compliance with the minimum regulatory capital requirements.

The Pillar III disclosures under the Capital Requirements Regulation (EU) No. 575/2013 will be available on the Bank's website by 31 July 2017 (www.astrobank.com) (Investor Relations).

### Capital adequacy position in relation to the modified Capital Requirements Directive IV (CRD IV)

The capital adequacy position of the Bank based on the Capital Requirements Directive IV (CRD IV) (following the application of transitional provisions as defined by the CBC) and the new Capital Requirements Regulations (CRR) (following the application of transitional provisions as defined by the CBC) is presented below:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| **Regulatory Capital** | | |
| Transitional Common Equity Tier 1 funds (CET1) | 98.568.344 | 62.390.000 |
| Additional transitional funds Tier 1 Funds (AT 1) | - | - |
| Tier II capital (T2) | - | - |
| **Total Transitional Regulatory Capital** | **98.568.344** | **62.390.000** |
| Risk weighted assets - credit risk | 575.398.844 | 586.831.862 |
| Risk weighted assets – market risk | - | - |
| Risk weighted assets – operational risk | 73.042.213 | 83.850.000 |
| **Total Risk weighted assets** | **648.441.057** | **670.681.862** |
| Transitional Common Equity Tier 1 funds (CET1) ratio | **15,2%** | **9,30%** |
| Transitional Tier 1 funds (Tier I) ratio | **15,2%** | **9,30%** |
| **Total Transitional Regulatory Capital ratio** | **15,2%** | **9,30%** |

**34. MANAGEMENT OF FINANCIAL RISKS (continued)**

**Other risks**

**Supervisory risk**

The operations of the Bank are monitored by the Central Bank of Cyprus and the European Central Bank (ECB) which holds a supervisory role for all banks in the Eurozone (known as the Single Supervisory Mechanism – SSM). The ECB completely took over monitoring responsibilities on 4 November 2014. The ECB and the national central banks together comprise the Eurosystem, being the central banking system of the Eurozone. The ECB executes its monitoring duties in cooperation with the national central banks. As such, in Cyprus the ECB cooperates with the Central Bank of Cyprus (CBC).

With respect to this , the Bank is exposed to a series of regulatory and legal risks:

- The legislative and regulatory measures which may materially affect the Bank and the financial and economic environment within which it operates.
- The business activities and operations of the Bank are subject to important regulations and supervision and are likely to be negatively affected by the non-compliance to particular existing regulatory requirements and any adverse governmental regulations and developments.
- The application of a more demanding and restrictive regulatory framework (including the CRD IV/CRR), in relation to, among others, the capital adequacy indices, leverage, liquidity and the disclosure requirements. Changes to laws and regulations may also restrict some types of transactions, affect the strategy of the Bank and impact the fees the Bank charges for certain banking transactions and products.
- The Bank is subject to certain regulatory and legislative restrictions with regard to the advancing of new loans, the management and restructuring of existing loans and the realisation of collateral.

**Intensity of competition**

The Bank operates amidst intense competition that mainly comes from local and international commercial banks, co-operative credit institutions and savings banks, that offer broadly similar products and services. The Bank encounters competition within the Cyprus Banking market as well as from banks and financial institutions operating within the European Banking market.

A potential increase in competition, through the supply of more competitive deposit and loan interest rates than those offered by the Bank, could potentially create pressures on the Bank's profit margins.

**Legal risk**

The Bank could, from time to time, be involved in legal or arbitration matters or litigations which could bring about negative consequences on its operations and results. Legal risk also arises from legal proceedings that are pending or that could be raised against the Bank (Note 32).

**Political risk**

External factors that are not under the control of the Bank, such as political developments in Cyprus and abroad, could adversely affect the Bank's operations, strategy and prospects. Indicatively, such factors include changes in government policy, changes in the policies of the European Union, the European Central Bank and the Central Bank of Cyprus, political instability or military operations that affect Europe and/or other territories abroad.

# Notes to the financial statements for the year ended 31 December 2016

## 35. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the categories shown below:

| | Loans and receivables € | Trading derivatives € | Available for sale financial assets € | Financial assets at fair value through profit or loss € | Total € |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Assets as per balance sheet** | | | | | |
| Cash and deposits with Central Bank (Note 14) | 345.329.285 | - | - | - | 345.329.285 |
| Placements with other banks (Note 15) | 87.114.624 | - | - | - | 87.114.624 |
| Debt securities (Note 16) | 44.288.759 | - | - | - | 44.288.759 |
| Loans and advances to subsidiaries (Note 17) | 13.701.133 | - | - | - | 13.701.133 |
| Loans and advances to customers (Note 17) | 556.441.503 | - | - | - | 556.441.503 |
| Available for sale financial assets (Note 18) | - | - | 86.278.630 | - | 86.278.630 |
| Financial assets at fair value through profit or loss (Note 19) | - | - | - | 11.859.747 | 11.859.747 |
| Derivative financial instruments (Note 33) | - | 1.068.974 | - | - | 1.068.974 |
| Other assets (Note 24) | 1.132.971 | - | - | - | 1.132.971 |
| | **1.048.008.275** | **1.068.974** | **86.278.630** | **11.859.747** | **1.147.215.626** |

| | Trading derivatives € | Other financial liabilities € | Total € |
|---|---|---|---|
| **2016** | | | |
| **Liabilities as per balance sheet** | | | |
| Due to other banks (Note 25) | - | 2.237.738 | 2.237.738 |
| Customer deposits (Note 26) | - | 1.072.921.427 | 1.072.921.427 |
| Derivative financial instruments ( Note 33) | 1.547.932 | - | 1.547.932 |
| Other liabilities (Note 28) | - | 16.338.507 | 16.338.507 |
| | **1.547.932** | **1.091.497.672** | **1.093.045.604** |

| | Loans and receivables € | Trading derivatives € | Available for sale financial assets € | Financial assets at fair value through profit or loss € | Total € |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Assets as per balance sheet** | | | | | |
| Cash and deposits with Central Bank (Note 14) | 184.628.264 | - | - | - | 184.628.264 |
| Placements with other banks (Note 15) | 32.699.182 | - | - | - | 32.699.182 |
| Debt securities (Note 16) | 36.517.952 | - | - | - | 36.517.952 |
| Loans and advances to subsidiaries (Note 17) | 1.333.801 | - | - | - | 1.333.801 |
| Loans and advances to customers (Note 17) | 633.176.309 | - | - | - | 633.176.309 |
| Available for sale financial assets (Note 18) | - | - | 103.942.853 | - | 103.942.853 |
| Financial assets at fair value through profit or loss (Note 19) | - | - | - | 12.049.250 | 12.049.250 |
| Derivative financial instruments (Note 33) | - | 504.379 | - | - | 504.379 |
| Other assets (Note 24) | 2.572.321 | - | - | - | 2.572.321 |
| | **890.927.829** | **504.379** | **103.942.853** | **12.049.250** | **1.007.424.311** |

# Notes to the financial statements
# for the year ended 31 December 2016

## 35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

| | Trading derivatives € | Other financial liabilities € | Total € |
|---|---|---|---|
| **2015** | | | |
| **Liabilities as per balance sheet** | | | |
| Due to other banks | - | 2.090.354 | 2.090.354 |
| Customer deposits | - | 958.525.885 | 958.525.885 |
| Derivative financial instruments | 130.561 | - | 130.561 |
| Other liabilities | - | 13.724.858 | 13.724.858 |
| | **130.561** | **974.341.097** | **974.471.658** |

## 36. RELATED PARTY TRANSACTIONS

Until 28 December 2016, the Bank was controlled by Piraeus Bank S.A, a company incorporated in Greece and listed in the Athens Stock Exchange, which held 100% of the Bank's share capital. As from 28 December 2016, the Bank is owned by a number of investors, none of which, has a direct or indirect controlling interest on the Bank.

The table below presents transactions and balances with the key management personnel and board members, and connected persons as at 31 December 2016 and 2015:

| | 2016 € | 2015 € |
|---|---|---|
| Loans and other advances | 314.949 | 143.114 |
| Interest income | 7.877 | 6.722 |
| Deposits | 1.753.342 | 1.408.004 |
| Interest expense | 19.313 | 43.623 |

There were no contingent liabilities or commitments towards the Bank's key management personnel.

The new members of the Board of Directors, appointed in 2017, did not have any balances and transactions with the Bank during 2016.

Connected persons include spouses, dependent children, as well as companies in which key management personnel hold, directly or indirectly, at least 20% of the voting rights during a general meeting.

### Remuneration of key management personnel of the Bank

| | 2016 € | 2015 € |
|---|---|---|
| **Key management personnel remuneration:** | | |
| Salaries and other current benefits and employer's social insurance contributions | 597.664 | 524.537 |
| Total key management personnel remuneration – under their executive capacity (i) | **597.664** | **524.537** |
| Total key management personnel remuneration – as directors | - | - |

(i) Key management personnel consists of the Bank's General Management

### Non-executive directors remuneration

| | 2016 € | 2015 € |
|---|---|---|
| Total remuneration of non-executive directors | 80.000 | 348.273 |

# Notes to the financial statements
# for the year ended 31 December 2016

### 36. RELATED PARTY TRANSACTIONS (continued)

During 2016 the Bank entered into transactions for the acquisition of fixed or intangible assets or for the supply of support services with related parties for a total amount of €558.294 (2015: €506.056). Part of these transactions were in connection to the acquisition of fixed or intangible assets (2016: €6.604, 2015: €64.767) with the remaining balance relating to other services rendered to the Bank which have been included in the income statement for the years ended 31 December 2016 and 2015 respectively.

The table below presents balances with related parties of the Piraeus Bank S.A. Group (parent bank until 28 December 2016) included in the balance sheet as at 31 December 2016 and 2015:

| | **2016**<br>**€** | **2015**<br>**€** |
|---|---|---|
| Placements with banks | | |
| - with Piraeus Bank S.A | | 3.898.830 |
| - with Piraeus Bank S.A. Group related companies | | 7.211 |
| Loans and other advances | | |
| - with Piraeus Bank S.A. Group related companies | | 1.252.694 |
| - with subsidiary companies (after provisions of 2016: 3.781.962 2015: 2.590.387) | 13.701.133 | 1.333.801 |
| Derivative financial instruments with positive fair value | | |
| - with Piraeus Bank S.A | | 498.897 |
| Other assets | | |
| - with subsidiary companies | 236.254 | 105.482 |
| Due to other banks | | |
| - with Piraeus Bank S.A. | | 305.367 |
| - with Piraeus Bank S.A. Group related companies | | 192 |
| Deposits and other customer accounts | | |
| - with Piraeus Bank S.A. Group related companies | | 7.780.951 |
| - with subsidiary companies | 458.172 | 594.450 |
| Derivative financial instruments with negative fair value | | |
| - with Piraeus Bank S.A | | 130.119 |
| Other liabilities | | |
| - with subsidiary companies | 3.526 | 11.854 |

On 28 December 2016, a Technical Services Agreement (TSA) was signed between Piraeus Bank S.A.(PBSA) and the Bank for the provision of the following services to the Bank:

- IT Services (Hosting, Support, Operations)
- Card Processing Services
- Call Centre Services
- Swift & Payments Services
- Control Unit Support (Internal Audit, Compliance, Risk Management)
- Other support services

Under the terms of the TSA, the above services will be offered by PBSA to the Bank for free for a period of two years. At the end of this period the provision of the services by PBSA at a pre-agreed cost can be extended at the option of the Bank.

# Notes to the financial statements
# for the year ended 31 December 2016

## 36. RELATED PARTY TRANSACTIONS (continued)

The table below presents balances with related parties of the Piraeus Bank S.A. Group (parent bank until 28 December 2016) included in the income statement for the years ended 31 December 2016 and 2015:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Interest income | | |
| - with Piraeus Bank S.A | - | 782.519 |
| - with Piraeus Bank S.A. Group related companies | 64.045 | 53.716 |
| - with subsidiary companies | 129.322 | 193.816 |
| Interest expense | | |
| - with Piraeus Bank S.A | 3.631 | - |
| - with Piraeus Bank S.A. Group related companies | 89.775 | 61.182 |
| Operating expenses | | |
| - with Piraeus Bank S.A. Group related companies | 365.336 | 203.373 |
| - with Piraeus Bank S.A | 171.360 | 176.370 |
| Provisions for impairment of doubtful debts | | |
| - with subsidiary companies | 1.191.575 | 202.493 |

## 37. EVENTS AFTER THE REPORTING PERIOD

**Change of Bank's name**

On the 30th of March 2017, the Bank changed its name from Piraeus Bank (Cyprus) Ltd to AstroBank Limited.

**Change in the composition of the Board of Directors**

By a Unanimous written General Assembly Resolution dated 20 January 2017, the following resolutions were approved:

*Board of Directors:*

- Appointment of Mr. Shadi A. Karam as the new Independent Director and Chairman of the Bank
- Appointment of Mr. Maurice Sehnaoui as a Non-Executive Director
- Appointment of Mr. Raoul Nehme as an Executive Director
- Appointment of Mr. Bassam Diab as a Non-Executive Director
- Appointment of Mrs. Maria Dionyssiades as an Independent Director
- Appointment of Mr. George Kourris as a Senior Independent Director
- Acceptance of the resignation of Mr. Constantinos St. Loizides from the position of Chairman (continues as a Non-executive Director)
- Acceptance of the resignation of Mr. Takis Klerides from his position as Director (with effect 12 January 2017)

*Committees:*

- Appointment of Mr. Maurice Sehnaoui as Chairman of the Nomination and Remuneration Committee replacing Mr. Socrates Solomides
- Appointment of Mr. Shadi A. Karam as Chairman of the Risk Committee
- Appointment of Mr. George Kourris as Chairman of the Audit Committee
- Appointment of Mrs. Maria Dionyssiades as an Independent Member of the Audit Committee
- Acceptance of the resignation of Mr. George Liakopoulos from the Nomination and Remuneration Committee
- Acceptance of the resignation of Mr. George Kourris from the Risk Committee
- Acceptance of the resignation of Mr. Takis Klerides from the Audit Committee.

# Notes to the financial statements for the year ended 31 December 2016

**37. EVENTS AFTER THE REPORTING PERIOD (Continued)**

Mr Raoul Nehme was appointed as Chairman of the Executive Committee. In this capacity, Mr Nehme will be contributing to the decisions of the Executive Committee for the implementation of the strategy as laid out by the new Board of Directors.

**ECB's NPL Guidance finalised**

On 20th March 2017, the ECB published the final guidance to banks on non-performing loans (NPLs). The guidance does not intent to substitute or supersede any applicable regulatory or accounting requirement or guidance from existing EU regulations or directives and the national transpositions or equivalent, or guidelines issued by the European Banking Authority (EBA). ECB Banking supervision within this guidance identifies a number of best practices relating to identification, measurement, management and write off of NPLs in areas where existing regulations, directives or guidelines are silent or lack specificity. The guidance, which is currently non-binding in nature, is applicable as of its date of publication. NPL disclosure expectations described in the guidance should start from 2018 reference reporting dates. The guidance will be taken into consideration in the SSM regular Supervisory Review and Evaluation and non-compliance may trigger supervisory measures. The Bank is currently evaluating the guidance in order to ensure compliance.

Other than the above, there are no events after the reporting date which have a material bearing on the understanding of the financial statements.

Independent auditor's report on pages 9 to 11.

# Additional disclosures

## 1. Credit risk

The Central Bank of Cyprus (CBC) issued to credit institutions the Loan Impairment and Provisioning Directives of 2014 and 2015 (Directive), 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 International Financial Reporting Standards (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 Notes 2, 17 and 34 are set out in the following tables. Table A and B for 31/12/2016 and 31/12/2015, have been prepared based on different definitions compared to those used for the preparation of Notes 17 and 34, hence the amounts are not comparable.

The tables disclose Non-Performing Exposures (NPEs) based on the definitions of the European Banking Authority (EBA) standards.

According to the EBA standards, NPEs are defined as those exposures that satisfy one of the following conditions:

(i) The debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in Regulation (EU) No 575/2013 Article 178.
(iii) Material exposures (as defined below) which are more than 90 days past due.
(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
(v) Performing forborne exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorized as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.

- Material arrears/excesses are defined as follows:
  - Retail exposures:
    - Loans: Arrears amount greater than €500 or number of instalments in arrears is greater than one.
    - Overdrafts: Excess amount is greater than €500 or greater than 10% of the approved limit.

- Exposures other than retail: Total customer arrears/excesses are greater than €1.000 or greater than 10% of the total customer funded balances.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

(i) The extension of forbearance measures does not lead to the recognition of impairment or default.
(ii) One year has passed since the forbearance measures were extended.
(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

## 1. Credit risk (continued):

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2016 according to the CBC directive on Loan Impairment and Provisions Practices.

| | Gross Loans and Advances to Customers | | | | Accumulated Impairment, accumulated changes in fair value due to credit risk and provisions | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Of which with Forbearance measures | | | | Of which with Forbearance measures | |
| | Gross carrying amount | Of which Non Performing | Gross carrying amount of Loans with Forbearance measures | Of which Non Performing | Cumulative Impairment Losses | Of which Non Performing | Cumulative Impairment Losses of Loans with Forbearance measures | Of which Non Performing |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **General Governments** | **5.159** | **0** | **1.856** | **0** | **114** | **0** | **66** | **0** |
| **Other Financial Corporations** | **28.952** | **21.645** | **19.673** | **19.673** | **6.666** | **6.609** | **5.074** | **5.074** |
| **Non-financial Corporations** | **489.221** | **260.037** | **88.621** | **85.112** | **97.870** | **94.942** | **8.777** | **8.754** |
| of which: Small and Medium-sized enterprises | 464.718 | 259.930 | 88.621 | 85.112 | 96.594 | 94.842 | 8.777 | 8.754 |
| of which: Loans collateralized by commercial Immovable property | 187.361 | 111.276 | 24.933 | 24.933 | 38.650 | 37.772 | 1.233 | 1.233 |
| **Non-financial Corporations by sector** | **489.221** | **260.037** | **88.621** | **85.112** | **97.870** | **94.942** | **8.777** | **8.754** |
| Construction | 127.409 | 110.584 | 56.413 | 54.770 | 40.066 | 39.705 | 6.008 | 6.008 |
| Wholesale and retail trade | 97.533 | 51.736 | 10.182 | 9.762 | 22.142 | 20.492 | 337 | 323 |
| Accommodation and food service activities | 39.440 | 24.057 | 1 | 1 | 7.410 | 7.369 | 0 | 0 |
| Real estate activities | 54.370 | 45.067 | 9.678 | 9.531 | 15.747 | 15.729 | 210 | 210 |
| Manufacturing | 17.968 | 3.971 | 560 | 560 | 1.935 | 1.769 | 45 | 45 |
| Other Sectors | 152.501 | 24.622 | 11.786 | 10.488 | 10.570 | 9.878 | 2.177 | 2.168 |
| **Households** | **185.919** | **108.177** | **26.561** | **18.825** | **48.156** | **47.346** | **4.028** | **3.998** |
| of which: Loans collateralized by residential Immovable property | 123.669 | 69.568 | 21.218 | 15.101 | 25.170 | 25.049 | 2.323 | 2.302 |
| of which: Credit for consumption | 62.939 | 40.370 | 8.562 | 6.158 | 27.424 | 26.792 | 1.781 | 1.772 |
| **Total** | **709.251** | **389.859** | **136.711** | **123.610** | **152.806** | **148.897** | **17.945** | **17.826** |

(1) Non-including loans and advances to subsidiaries of €17.489 thousand for assets acquired in satisfaction of debts.

(2) Non-including loans and advances to central banks and credit institutions.

## 1. Credit risk (continued):

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2016 on the basis of the loan origination date according to the CBC directive on Loan Impairment and Provisions Practices.

| | Gross Loans and Advance to Customers | | | Loans and Advances to Non-Financial Corporations | | | Loans and Advances to Other Financial Corporations | | | Loans and Advances to Households | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Within 1 year | 26.356 | 13.091 | 2.911 | 18.751 | 12.233 | 2.617 | 0 | 0 | 0 | 7.605 | 859 | 294 |
| 1 - 2 years | 26.556 | 19.265 | 5.154 | 5.432 | 3.021 | 851 | 15.538 | 15.537 | 3.902 | 5.586 | 707 | 402 |
| 2 - 3 years | 17.190 | 4.842 | 674 | 11.962 | 4.235 | 300 | 6 | 0 | 0 | 5.222 | 607 | 374 |
| 3 - 5 years | 117.687 | 68.283 | 12.545 | 88.995 | 47.944 | 8.284 | 491 | 207 | 172 | 28.200 | 20.131 | 4.088 |
| 5 - 7 years | 179.830 | 102.629 | 39.432 | 100.126 | 61.672 | 22.984 | 11.575 | 5.544 | 2.266 | 68.129 | 35.413 | 14.182 |
| 7 - 10 years | 336.415 | 181.749 | 91.973 | 263.896 | 130.933 | 62.831 | 1.343 | 357 | 326 | 71.177 | 50.459 | 28.816 |
| Over 10 years | 58 | 0 | 3 | 58 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **704.092** | **389.859** | **152.691** | **489.221** | **260.037** | **97.870** | **28.952** | **21.645** | **6.666** | **185.919** | **108.177** | **48.156** |
| **General Governments** | 5.159 | 0 | 114 | | | | | | | | | |
| | **709.251** | **389.859** | **152.806** | | | | | | | | | |

## 1. Credit risk (continued):

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2015 according to the CBC directive on Loan Impairment and Provisions Practices.

| | Gross Loans and Advances to Customers | | | | Accumulated Impairment, accumulated changes in fair value due to credit risk and provisions | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Of which with Forbearance measures | | | | Of which with Forbearance measures | |
| | Gross carrying amount | Of which Non-Performing | Gross carrying amount of Loans with Forbearance measures | Of which Non-Performing | Cumulative impairment losses | Of which Non-Performing | Cumulative Impairment Losses of Loans with Forbearance measures | Of which Non Performing |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **General Governments** | **5.805** | **0** | **2.067** | **0** | **393** | **0** | **361** | **0** |
| **Other Financial Corporations** | **43.932** | **22.581** | **19.636** | **15.700** | **3.193** | **2.680** | **337** | **0** |
| **Non-financial Corporations** | **533.868** | **263.945** | **71.413** | **60.408** | **95.659** | **92.732** | **1.541** | **1.389** |
| of which: Small and Medium-sized enterprises | 494.756 | 242.946 | 71.413 | 60.408 | 85.348 | 82.933 | 1.541 | 1.389 |
| of which: Loans collateralized by commercial Immovable property | 235.271 | 140.487 | 25.600 | 19.238 | 50.511 | 49.875 | 775 | 627 |
| **Non-financial Corporations by sector** | **533.868** | **263.945** | **71.413** | **60.408** | **95.659** | **92.732** | **1.541** | **1.389** |
| Construction | 127.997 | 104.242 | 46.309 | 43.666 | 33.889 | 32.856 | 930 | 830 |
| Wholesale and retail trade | 114.570 | 62.490 | 11.054 | 4.485 | 27.337 | 26.523 | 284 | 284 |
| Accommodation and food service activities | 50.912 | 22.953 | 9 | 9 | 8.136 | 8.032 | 0 | 0 |
| Real estate activities | 58.396 | 46.719 | 12.025 | 11.867 | 12.625 | 12.525 | 242 | 222 |
| Manufacturing | 23.059 | 3.901 | 0 | 0 | 1.944 | 1.530 | 0 | 0 |
| Other Sectors | 158.931 | 23.637 | 2.013 | 379 | 11.726 | 11.264 | 82 | 51 |
| **Households** | **197.290** | **101.654** | **15.256** | **10.133** | **48.473** | **46.192** | **1.403** | **1.234** |
| of which: Loans collateralized by residential Immovable property | 132.719 | 66.378 | 10.802 | 7.037 | 25.294 | 24.040 | 835 | 706 |
| of which: Credit for consumption | 64.570 | 35.276 | 4.453 | 3.095 | 23.178 | 22.151 | 568 | 527 |
| **Total** | **780.895** | **388.180** | **108.372** | **86.241** | **147.718** | **141.604** | **3.642** | **2.623** |

## 1. Credit risk (continued):

1. Non-including loans and advances to subsidiaries of €3.924 thousand for assets acquired in satisfaction of debts.
2. Non-including loans and advances to central banks and credit institutions.

Table below presents a breakdown of Loans and Advances to Customers as at 31 December 2015 on the basis of the loan origination date according to the CBC directive on Loan Impairment and Provisions Practices.

| | Gross Loans and Advance to Customers | | | Loans and Advances to Non-Financial Corporations | | | Loans and Advances to Other Financial Corporations | | | Loans and Advances to Households | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** | **Total Loans and Advances** | **Non-performing exposures** | **Cumulative Impairment losses** |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Within 1 year | 29.086 | 19.385 | 919 | 7.416 | 3.064 | 675 | 15.753 | 15.700 | 1 | 5.915 | 618 | 240 |
| 1 - 2 years | 30.324 | 5.384 | 1.236 | 17.690 | 4.673 | 524 | 8 | 0 | 0 | 12.624 | 711 | 712 |
| 2 - 3 years | 64.353 | 40.462 | 3.524 | 48.958 | 38.036 | 2.408 | 5.053 | 203 | 149 | 10.342 | 2.222 | 966 |
| 3 - 5 years | 137.083 | 58.251 | 21.035 | 91.229 | 36.843 | 12.280 | 7.693 | 332 | 644 | 38.160 | 21.075 | 8.111 |
| 5 - 7 years | 334.386 | 154.840 | 66.112 | 219.568 | 89.983 | 35.305 | 8.197 | 4.079 | 1.650 | 106.620 | 60.777 | 29.157 |
| 7 - 10 years | 179.858 | 109.858 | 54.499 | 149.004 | 91.344 | 44.467 | 7.226 | 2.265 | 746 | 23.627 | 16.248 | 9.285 |
| Over 10 years | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **775.090** | **388.180** | **147.325** | **533.865** | **263.943** | **95.659** | **43.930** | **22.579** | **3.190** | **197.288** | **101.651** | **48.471** |
| **General Governments** | 5.805 | 0 | 393 | | | | | | | | | |
| | **780.895** | **388.180** | **147.718** | | | | | | | | | |

## 2. Liquidity risk and funding

### Encumbered and unencumbered assets

The table below presents an analysis of the encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes. An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralized obligations and, as a result, is no longer available to the Bank for further collateral or liquidity requirements.

**ENCUMBERED AND UNENCUMBERED ASSETS AT CARRYING VALUE AND FAIR VALUE**

**31 December 2016**

| | Carrying value of encumbered assets € | Fair value of encumbered assets € | Carrying value of unencumbered assets € | Fair value of unencumbered assets € |
|---|---|---|---|---|
| **Assets** | | | | |
| Shares | | | 12.258 | 12.258 |
| Bonds | | | 118.305 | 118.305 |
| Other assets | | | 1.066.945 | |
| **Total** | | | 1.197.508 | |

**31 December 2015**

| | Carrying value of encumbered assets € | Fair value of encumbered assets € | Carrying value of unencumbered assets € | Fair value of unencumbered assets € |
|---|---|---|---|---|
| **Assets** | | | | |
| Shares | | | 10.430 | 10.430 |
| Bonds | | | 128.296 | 128.296 |
| Other assets | | | 906.730 | |
| **Total** | | | 1.045.456 | |