ASTROBANK GROUP

Annual Report
For the year ended 31 December 2018

Contents

Board of Directors and Professional Advisors as at 31 December 2018

Board of Directors AstroBank Group	Shadi Karam Independent Non-Executive Chairman
	Maurice Sehnaoui Non-Executive Vice Chairman
	Constantinos St. Loizides Non-Executive Director *(until 28 February 2019)* Chairman of the Executive Committee & Managing Director *(appointed 1 March 2019)*
	George Appios Executive Director & Deputy Managing Director
	Marios A. Savvides Executive Director
	Raoul Nehme Executive Director & Chairman of the Executive Committee *(resigned 3 July 2018)*
	Bassam Diab Non-Executive Director
	Maria Dionyssiades Independent Non-Executive Director
	George Kourris Independent Non-Executive Director
	George Liakopoulos Non-Executive Director
	Elena Orfanidou Independent Non-Executive Director *(appointed on 24 July 2018 and resigned 30 April 2019)*
	Costas Partassides Independent Non-Executive Director
	Socrates Solomides Independent Non-Executive Director
	Andreas Vassiliou Independent Non-Executive Director
Executive Committee	Constantinos St. Loizides Chairman *(appointed on 1 March 2019)*
	George Appios
	Marios A. Savvides
	Neoclis Neocleous
	Andreas Theodorides
	Raoul Nehme *(resigned 3 July 2018)*
Secretary	Elli Photiadou
Independent Auditors	Ernst and Young Cyprus Ltd Jean Nouvel Tower 6 Stasinou Avenue 1060 Nicosia Cyprus
Headquarters/Registered office	1, Spyrou Kyprianou Street CY-1065 Nicosia P O Box 25700 CY-1393 Nicosia Cyprus

Consolidated Management Report

The consolidated financial statements relate to Astrobank Limited ("the Bank") together with its subsidiaries ("the Group"). The Bank was the holding company of the Group as at 31 December 2018.

1 Principal activities

The principal activity of the Bank, which is unchanged from 31 December 2017, is the provision of banking and financial services.

The principal activities of the property subsidiaries, which are unchanged from 31 December 2017 are the holding and administration of property acquired by the Bank in debt satisfaction. A separate subsidiary operates as an insurance broker.

2 Share premium decrease due to capital reduction, change in shareholding & capital injection

On 17 January 2019, as part of the acquisition of USB Bank's business, there was an increase in the Bank's ordinary share capital by €44m (5.648.267 shares €7,79 each) and an issue of preference shares eligible as Tier 1 capital of €10m (1.250.000 shares €8 each).

3 Changes in group structure

Following the completion of the acquisition of USB Bank's business, the following shareholders held more than 10% of the issued share capital of the parent Bank:

	17 January 2019		31 December 2018	
Shareholders	Number of ordinary shares	% held	Number of ordinary shares	% held
Holding M. Sehnaoui S.A.L.	4.680.484	23,7%	2.499.798	17,7%
Piraeus Bank S.A.	2.490.000	12,6%	2.490.000	17,6%
Bassam Najib Diab	2.292.694	11,6%	1.499.879	10,6%
WG Cyprus (Holding) SAL	2.263.337	11,5%	1.749.858	12,4%

4 Future developments/ prospects

The Group's strategy is focused towards long term growth (organic and by acquisition), speed of decision-making and client service. This is to be achieved through strengthening the sales and support teams, improvement in marketing, product development and response times and aided by the improving macroeconomic fundamentals. At the same time, in the short to medium term, priority remains the reduction of non-performing loans through customer restructuring, consensual settlement arrangements, Debt for Asset Swaps, foreclosures and effective capital management.

In addition to the recent acquisition (completed on the 18 of January 2019) of the USB Bank's business, the Bank aims to increase its footprint in the lending market through the utilisation of its excess liquidity. With this acquisition, the Bank strengthens significantly its position in the Cyprus market by leveraging the synergies it creates. Following the completion of the acquisition of the operations of USB Bank, AstroBank's total assets have grown by almost 50% to more than €2 billion, with gross loans at €1,2 billion, customer deposits at €1,9 billion and equity at €165m. (Refer to Note 39)

The Group's strategic targets include the reduction of operating expenses as a proportion of income and substantial synergistic cost savings following the acquisition of USB.

Consolidated Management Report (continued)

5 Financial results

Consolidated income statement

	2018	2017
Net interest income	22.620.590	21.921.536
Net fee and commission income	11.520.529	9.650.538
Other income	934.268	1.560.336
Net gains on financial instrument transactions	9.005.118	4.769.056
Operating income	**44.080.505**	**37.901.466**
Impairment of property, equipment and leasehold improvements	(1.009.989)	(217.354)
Staff expenses	(20.755.515)	(17.944.975)
Depreciation and amortisation	(1.311.914)	(752.076)
Other operating expenses	(12.708.604)	(11.025.093)
Profit before provisions	**8.294.483**	**7.961.968**
Reversal of / (Provision for) expected credit loss to cover credit risk on loans and advances to customers	979.859	(1.380.455)
Reversal of expected credit loss on contractual commitments and guarantees	40.390	399.952
Credit loss expense on other financial instruments	275.529	-
Profit before tax	**9.590.261**	**6.981.465**
Income tax charge	380.424	(1.934.641)
Profit after tax	**9.970.685**	**5.046.824**

Consolidated statement of financial position

	2018	2017
Assets		
Cash and balances with Central Banks	200.763.030	326.932.139
Placements with other banks	107.672.594	51.629.291
Derivative financial instruments	63.173	32.267
Financial assets at fair value through profit or loss	22.909.165	28.035.336
Available for sale financial assets	-	226.859.009
Financial assets at fair value through other comprehensive income	6.990.945	-
Financial assets at amortised cost	371.357.596	-
Loans and advances to customers	578.632.744	513.519.525
Other assets	1.777.592	2.666.421
Investment properties	75.827.500	64.730.039
Property and equipment	24.487.944	24.085.092
Intangible assets	1.125.231	935.780
Deferred tax asset	5.857.226	5.716.155
Total assets	**1.397.464.740**	**1.245.141.054**
Liabilities		
Amounts due to other banks and deposits from banks	15.140.202	2.480.674
Derivative financial instruments	807.898	470.110
Deposits and other customer accounts	1.220.425.492	1.103.199.997
Current tax liability	107.887	91.491
Other liabilities	48.554.765	21.813.798
Deferred tax liability	635.795	887.501
Total liabilities	**1.285.672.039**	**1.128.943.571**
Total equity	**111.792.701**	**116.197.483**
Total equity and liabilities	**1.397.464.740**	**1.245.141.054**

Consolidated Management Report (continued)

5 **Financial results (continued)**

Key Performance Indicators		**2018**	**2017**
Asset quality	NPE Ratio	42,6%	56,2%
	NPE Provision Coverage Ratio	56,0%	51,7%
Capital	CET 1 and Total Capital (Transitional)	14,3%	17,0%
Balance Sheet	Total Assets (€m)	€1.397m	€1.245m
	Total Gross Loans (€m)	€760m	€724m
	Accumulated expected credit losses on loans and advances to customers/ Accumulated provisions (€m)	€181m	€210m
	Total Deposits (€m)	€1.220m	€1.103m
Liquidity	Liquid assets / Deposits	56,3%	55,2%
	Net Loans/Deposits	47,4%	46,5%
	Liquidity Coverage Ratio	552,9%	323,0%

Key Performance Indicators		**2018**	**2017**
Efficiency	Net interest margin	1,9%	2,0%
	Fee and commission income/ Total Income	26,1%	25,5%
	Cost/ Income	78,9%	78,4%
Profitability	Return on Average Assets	0,8%	0,4%
	Return on Average Equity	8,7%	4,6%

6 **Financial performance overview**

The financial performance of the Group for the year ended 31 December 2018 is set out on pages 10 and 11.

Income statement analysis

Net interest income (NII) for the year ended 31 December 2018 totaled €22.620.590 (2017: €21.921.536) and net interest margin (NIM) for the year was 1,9% (2017: 2,0%). The NII increase reflects decreased interest expense on deposits due to decrease of the local deposit rate and increased interest income from debt securities following the diversification of the excess liquidity into higher yielding instruments.

Non-interest income for the year ended 31 December 2018 amounted to €21.459.915 (2017: €15.979.930). Non-interest income mainly comprised of net fee and commission income of €11.520.529 (2017: €9.650.538) and net gains on financial instrument transactions €9.005.118 (2017: €4.769.056).

Consolidated Management Report (continued)

6 **Financial performance overview (continued)**

Income statement analysis (continued)

Total expenses for the year ended 31 December 2018 amounted to €34.776.033 increased by 17,0% compared to 2017. Increase in total expenses relates mainly to the Voluntary Early Retirement Scheme (€2m), the write off of leasehold improvements arising from branch renovations and increase in legal and consultancy fees.

Operating profit before impairment charges and other provisions for the year ended 31 December 2018 amounted to €8.294.483, increased by 5,8% compared to 2017. Credit loss recovery to cover credit risk on loans and advances to customer exposures (both on and off balance sheet) amounted to €1.020.249 compared to credit loss expense of €980.503 in 2017. Credit loss recovery for 2018 includes unrecognized interest on previously credit impaired loans which have cured during the year.

Profit after tax totaled €9.970.685 compared to a profit of €5.046.824 in 2017.

Statement of financial position analysis

The Group's total assets amounted to €1.397.464.740 (31 December 2017: €1.245.141.054) as at 31 December 2018, increased by 12,2% compared to 31 December 2017.

Deposits

Customer deposits totaled €1.220.425.492 at 31 December 2018 (31 December 2017: €1.103.199.997), increased by 10,6%, mainly due to increased current and savings account balances of retail and foreign customers. They comprised of €1.031.033.450 deposits in Euro and €189.392.042 deposits in foreign currencies, mostly US Dollars and British pounds.

Deposits by type	**31 December 2018**	**% of total deposits**	**31 December 2017**	**% of total deposits**
Current accounts	€652,8m	53,5%	€545,7m	49,5%
Savings accounts	€114,6m	9,4%	€63,9m	5,8%
Term deposits	€453,0m	37,1%	€493,6m	44,7%
Total deposits	**€1.220,4m**	**100,0%**	**€1.103,2m**	**100,0%**

Customers deposits to total assets ratio stood at 87,3% as at 31 December 2018 (31 December 2017: 88,6%).

Loans and advances to customers

Gross loans totaled €759.741.111 at 31 December 2018 compared to €723.612.814 at 31 December 2017. On 31 December 2018, the Group net loans and advances to customers totaled €578.632.744 (compared to €513.519.525 at 31 December 2017).

The net loans to deposits ratio stood at 47,4% as at 31 December 2018 (31 December 2017: 46,5%).

Gross loans balance by type:

	31 December 2018	**31 December 2017**	**Growth %**
Consumer	€85,8m	€73,9m	16,1%
Housing	€125,7m	€125,6m	0,1%
Credit cards	€7,9m	€7,2m	10,3%
Corporate	€540,3	€516,8m	4,5%
Gross loans	**€759,7**	**€723,5m**	**5%**

Consolidated Management Report (continued)

6 Financial performance overview (continued)

Statement of financial position analysis (continued)

Loans and advances to customers (continued)

Loan Portfolio Quality

Improving the Group's loan portfolio quality remains high priority for Management. The Group continues to make steady progress across all asset quality metrics and the loan restructuring activity continues.

Non-Performing Exposures (NPEs) as defined by EBA decreased by €82.887.700 (20,4% decrease) during the year ended 31 December 2018 to €323.543.730 (31 December 2017: €406.431.430), representing 42,6% (31 December 2017: 56,2%) of gross loans.

The provision coverage ratio of NPEs, rose to 56,0% at 31 December 2018, compared to 51,7% at 31 December 2017. The introduction of IFRS 9 on 1 January 2018 contributed to the improvement in the provision coverage of NPEs.

Accumulated impairment losses amounted to €181.108.367 as at 31 December 2018 (31 December 2017: €210.093.289) and represented 23,8% of the total gross loans (31 December 2017: 29,0%). Accumulated provisions decrease relates mainly to write offs performed during the year.

Further details on the Loan portfolio of the Group are disclosed in Notes 18 and 34 to the consolidated financial statements.

Debt for asset swaps implemented during the year ended 31 December 2018

During the year ended 31 December 2018, the Group on-boarded €7.917.195 (31 December 2017: €33.493.949) of assets via the execution of debt for asset swaps and completed disposals of €9.025.125 (31 December 2017: €1.300.520).

As at 31 December 2018, assets held by the Group had a carrying value of €75.827.500.

	31 December 2018	31 December 2017
Assets held by the Group	€	€
Opening balance	76.955.083	43.387.237
On boarded assets	7.917.195	33.493.949
Disposals	(9.025.125)	(1.300.520)
Closing balance	**75.827.500**	**76.955.083**

7 Capital base

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 2018, the Bank maintained a Core Equity Tier 1 capital adequacy ratio (CET1) of 14,3%.The Bank following the acquisition of USB's business on 18 January 2019, is not in compliance with the minimum Overall Capital Requirement ('OCR') and the Bank developed a financial and capital plan ('Plan"), which was submitted to Central Bank of Cyprus in April 2019.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually. The amount that will be added each year will decrease based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five-years.

Consolidated Management Report (continued)

8 **IFRS 9 - Financial instruments**

The Group applied IFRS 9 on 1 January 2018. The new accounting standard allows the impact on the implementation date, 1 January 2018, to be recognised through equity rather than the income statement.

The Group's IFRS 9 impact on transition resulted in a decrease of shareholders' equity of €6,2 million. (Note 6)

9 **Liquidity risk**

As at and during the year ended 31 December 2018, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank. The liquidity coverage ratio stood at 552,9% (31 December 2017: 323,0%) compared to minimum requirement of 100%.

Details of the liquidity risk management are disclosed in Note 34 to the Consolidated financial statements.

10 **Operating Environment**

Refer to Note 4 to the consolidated financial statements.

11 **Going concern**

The Board of Directors and Management have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Board of Directors and Management believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. They have also concluded that there are no material uncertainties that could cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements.

The Board of Directors and Management, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Capital

The Bank maintained a capital adequacy ratio as at 31 December 2018 of 14,3%, in excess of the regulatory minimum applicable as of 31 December 2018.

The Bank following the acquisition of USB's business on 18 January 2019, is not in compliance with the minimum Overall Capital Requirement ('OCR'). The Group has developed a financial and capital plan ('Plan"), which was submitted to Central Bank of Cyprus in April 2019. One of the most important objectives of the capital plan was to ensure that the Group has sufficient resources and capital in order to meet its capital requirements and to fund the future expansion of the Group, while at the same time to continue to internally resolve non-performing loans.

The Board of Directors and Management considering the financial and capital plan together with the major shareholder's commitment to the Central Bank of Cyprus for a capital injection if required before the end of 2019, believe that the Group will maintain sufficient capital to meet the minimum regulatory capital requirements and fund the Group's growth strategy throughout the period of the assessment. The Group remains focused to implement the actions contemplated in the Plan.

Liquidity

The Bank maintains healthy liquidity levels, with a liquidity coverage ratio as at 31 December 2018 of 552,9%, well in excess of the regulatory minimum of 100%.

Based on the projections of management of the Group, it is expected that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

Consolidated Management Report (continued)

11 Going concern (continued)

Non- Performing exposures

The Group has significantly reduced its Non- Performing Exposures (NPEs) from 56,2% in 2017 to 42,6% at the end of 2018 while the provision coverage of NPEs has been enhanced to 56,0% (compared to 51,7% at 31 December 2017). Reduction of NPE balances remains as one of the major strategic objectives of the Group, with specific and targeted measures and actions for organic NPE management.

12 Principal risks and uncertainties

Like any banking group, the Group 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 Group monitors and manages these risks through various control mechanisms.

As explained in Note 34 to the consolidated financial statements, the Group's risk management program focuses on the unpredictability of the economic environment in which it operates and seeks to minimise potential adverse effects on the Group's financial performance. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and to ensure adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

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

13 Events after the reporting date

The events after the reporting date are disclosed in Note 39 of the consolidated financial statements.

By Order of the Board,

Constantinos Loizides
Chairman of the Executive Committee and Managing Director
27 June 2019

Consolidated Financial Statements

Consolidated income statement for the year ended 31 December 2018

	Note	2018 €	2017 €
Interest income		27.537.745	29.747.015
Income similar to interest income		1.407.610	1.821.212
Interest expense		(6.324.765)	(9.646.691)
Net interest income	7	**22.620.590**	**21.921.536**
Fee and commission income		13.730.287	11.497.309
Fee and commission expense		(2.209.758)	(1.846.771)
Net fee and commission income	8	**11.520.529**	**9.650.538**
Other income	9	934.268	1.560.336
Net gains on financial instrument transactions	10	9.005.118	4.769.056
		44.080.505	**37.901.466**
Impairment of property and equipment		(1.009.989)	(217.354)
Staff expenses	11	(20.755.515)	(17.944.975)
Depreciation and amortisation	12	(1.311.914)	(752.076)
Operating expenses	11	(12.708.604)	(11.025.093)
Profit before provisions		**8.294.483**	**7.961.968**
Reversal of / (provision for) expected credit loss to cover credit risk on loans and advances to customers	13	979.859	(1.380.455)
Reversal of expected credit loss to cover credit risk on contractual commitments and guarantees	13	40.390	399.952
Reversal of expected credit loss on other financial instruments	13	275.529	-
Profit before tax		**9.590.261**	**6.981.465**
Income tax release/ (charge)	14	380.424	(1.934.641)
Profit for the year		**9.970.685**	**5.046.824**

Consolidated statement of comprehensive income for the year ended 31 December 2018

	2018 €	2017 €
Profit for the year after tax	**9.970.685**	**5.046.824**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Equity investments at FVOCI – net change in fair value	677.705	-
	677.705	-
Items that are or may be reclassified subsequently to profit or loss:		
Debt instruments at fair value through other comprehensive income:		
Net losses on investments in debt instruments measured at FVOCI	(425.299)	-
Changes in allowance for expected credit losses	(337.643)	-
Reclassification to consolidated income statement upon disposal	(8.052.913)	-
	(8.815.855)	-
Available for sale financial assets:		
Available for sale financial assets – fair value reserve	-	8.092.976
Other comprehensive (loss)/ income for the year after tax	**(8.138.150)**	**8.092.976**
Total comprehensive income for the year	**1.832.535**	**13.139.800**
Total comprehensive income for the year attributable to:		
-Owners of the Parent Bank	1.832.535	13.139.800
Total comprehensive income for the year	**1.832.535**	**13.139.800**

Consolidated statement of financial position as at 31 December 2018

	Note	2018 €	2017 €
Assets			
Cash and balances with Central Banks	15	200.763.030	326.932.139
Placements with other banks	16	107.672.594	51.629.291
Derivative financial instruments	32	63.173	32.267
Financial assets at fair value through profit or loss	20	22.909.165	28.035.336
Available for sale financial assets	19	-	226.859.009
Financial assets at fair value through other comprehensive income	19	6.990.945	-
Financial assets at amortised cost	17	371.357.596	-
Loans and advances to customers	18	578.632.744	513.519.525
Other assets	24	1.777.592	2.666.421
Investment properties	23	75.827.500	64.730.039
Property and equipment	22	24.487.944	24.085.092
Intangible assets	21	1.125.231	935.780
Deferred tax asset	27	5.857.226	5.716.155
Total assets		**1.397.464.740**	**1.245.141.054**
Liabilities			
Amounts due to other banks and deposits from banks	25	15.140.202	2.480.674
Derivative financial instruments	32	807.898	470.110
Deposits and other customer accounts	26	1.220.425.492	1.103.199.997
Current tax liability		107.887	91.491
Other liabilities	28	48.554.765	21.813.798
Deferred tax liability	27	635.795	887.501
Total liabilities		**1.285.672.039**	**1.128.943.571**
Equity			
Share capital	29	14.113.487	14.113.487
Share premium	29	88.554.704	88.554.704
Revaluation and other reserves	30	716.834	8.408.033
Retained earnings	30	8.407.676	5.121.259
Total equity attributable to the owners of the Bank		**111.792.701**	**116.197.483**
Total equity		**111.792.701**	**116.197.483**
Total equity and liabilities		**1.397.464.740**	**1.245.141.054**

On 27 June 2019 the Board of Directors of AstroBank Limited approved these consolidated financial statements for issue.

Constantinos Loizides, Chairman of the Executive Committee and Managing Director

George Appios, Executive Director and Deputy Managing Director

Paola Ioannou, Chief Financial Officer

Consolidated statement of changes in equity

	Attributable to the owners of the Parent Bank						
	Share Capital (Note 29)	Share Premium (Note 29)	Fair value reserve	Retained earnings/ (Accumulated losses)	Total	Total Non-controlling Interests	Total equity
	€	€	€	€	€	€	€
Balance at 1st January 2017	**14.113.487**	**187.840.247**	**315.057**	**(99.211.108)**	**103.057.683**	**-**	**103.057.683**
Total comprehensive income for the year net of taxation							
Profit for the year	-	-	-	5.046.824	5.046.824	-	5.046.824
Other comprehensive income for the year	-	-	8.092.976	-	8.092.976	-	8.092.976
Total comprehensive income for the year	-	-	8.408.033	5.046.824	13.139.800	-	13.139.800
Share premium reduction (Note 28)	-	(99.285.543)	-	99.285.543	-	-	-
Balance as at 31 December 2017	**14.113.487**	**88.554.704**	**8.408.033**	**5.121.259**	**116.197.483**	**-**	**116.197.483**
Balance at 1st January 2018	14.113.487	88.554.704	8.408.033	5.121.259	116.197.483	-	116.197.483
Impact of adopting IFRS 9 at 1 January 2018 (Note 6)	-	-	446.951	(6.684.268)	(6.237.317)	-	(6.237.317)
Restated balance at 1 January 2018	**14.113.487**	**88.554.704**	**8.854.984**	**(1.563.009)**	**109.960.166**	**-**	**109.960.166**
Total comprehensive income for the year net of taxation							
Profit for the year	-	-	-	9.970.685	9.970.685	-	9.970.685
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	(337.643)	-	(337.643)	-	(337.643)
Net amount reclassified to the consolidated income statement on sale of debt instruments at FVOCI	-	-	(8.052.913)	-	8.052.913)	-	(8.052.913)
Net change in fair value of debt instruments at FVOCI	-	-	(425.299)	-	(425.299)	-	(425.299)
Net change in fair value of equity instruments at FVOCI	-	-	677.705	-	677.705	-	677.705
Total comprehensive income for the year	-	-	(8.138.150)	9.970.685	1.832.535	-	1.832.535
Balance as at 31 December 2018	**14.113.487**	**88.554.704**	**716.834**	**8.407.676**	**111.792.701**	**-**	**111.792.701**

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	2018 €	2017 €
Cash flows from operating activities			
Profit for the year before tax		9.590.261	6.981.465
Adjustments for:			
Depreciation of property and equipment, and amortisation of intangible assets	12	1.311.914	752.076
Net gain on disposal of available for sale financial assets	10	-	(942.853)
Net gain on disposal of instruments at fair value through other comprehensive income	10	(7.966.575)	-
Gain from disposal of financial assets at fair value through profit or loss	10	(36.646)	(1.241.473)
Impairment of property and equipment		1.009.989	217.354
Gain from disposal of investment properties	9	(83.462)	(61.261)
Change in fair value of derivative on equity shares	10	(677.705)	-
Dividend income	9	(768.600)	(760.711)
Revaluation gain on investment properties	9	(8.771)	(667.360)
Fair value loss/ (gain) on FVTPL investments	10	370.260	(707.057)
		2.740.665	3.570.180
Changes in:			
Loans and advances to customers	18	(73.030.414)	9.428.029
Deposits from and amounts due to other banks and customer accounts	26	129.885.023	30.979.678
Increase in mandatory deposits with the Central Bank of Cyprus	15	(3.641.455)	18.253.621
Other assets	24	888.829	(1.491.222)
Net position in derivative financial instruments	32	306.882	(41.115)
Other liabilities	28	27.874.881	7.213.633
Cash generated from operations		85.024.411	67.912.804
Tax Paid		-	-
Net cash generated from operations		85.024.411	67.912.804
Cash flows used in investing activities			
Purchase of property and equipment	22	(2.294.050)	(559.627)
Purchase of intangible assets	21	(767.793)	(1.034.631)
Additions of financial assets at fair value through profit and loss	20	(168.070.228)	(15.810.292)
Disposal of financial assets at fair value through profit and loss	20	167.193.015	341.760
Acquisition of available for sale financial assets	19	-	(132.487.102)
Acquisition of debt securities at amortised cost	17	(579.135.859)	-
Disposal of debt securities at amortised cost	17	414.489.518	44.288.759
Disposal of investment properties	23	9.025.125	958.760
Dividends received	9	768.600	760.711
Net cash generated used in investing activities		(158.791.672)	(103.541.662)
Cash flows from financing activities		-	-
Net decrease in cash and cash equivalents		(73.767.261)	(35.628.858)
Cash and cash equivalents at beginning of year		368.465.239	404.094.097
Cash and cash equivalents at end of the year	15,16	294.697.978	368.465.239

Non-cash transactions from operating activities

During the year the Group acquired property for the amount of €7,9m (2017: €33,5m) via execution of debt for asset swaps as settlement for loan repayments. These are not included in cash flows from operating activities as they do not constitute cash flow movements.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

On 27 June 2019 the Board of Directors of the AstroBank Limited authorised for issue the consolidated financial statements for the year ended 31 December 2018.

1. GENERAL INFORMATION

Country of incorporation

Astrobank Limited (the “Bank”) 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. AstroBank Group (the “Group”) comprises the Bank and its subsidiaries.

The subsidiaries of the Group were incorporated in Cyprus in accordance with the provisions of the Cyprus Companies Law, Cap. 113 and their registered office is located at 1, Spyrou Kyprianou Street, CY-1065 Nicosia.

Principal activities

The principal activity of the Bank, which is unchanged from 31 December 2017, is the provision of banking and financial services.

The principal activities of the property subsidiaries, which are unchanged from last year are the holding and administration of property acquired by the Bank in debt satisfaction. A separate subsidiary is used as an insurance broker.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, investments at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments that have been measured at fair value.

The financial statements are presented in Euro (€), which is the functional currency of the Group. A dot is used to separate thousands and a comma is used to separate decimals.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018.The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Bank, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following elements:

- Power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Basis of consolidation (continued)

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss.

The details of the subsidiaries whose results are consolidated in these consolidated financial statements are disclosed in Note 33.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If the business combination is achieved in stages, the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognised in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Comparatives

The Group has not restated comparative information for 2017 for financial instruments within the scope of IFRS 9. Additionally, the recognition and measurement of credit losses under IFRS 9 differs from that under IAS 39. Therefore, the comparative information for 2017, which is reported under IAS 39 is not comparable to the information presented for 2018, which is reported under IFRS 9. New or amended interim disclosures are presented for the current year according to IFRS 7 as amended by the adoption of IFRS 9, where applicable,

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparatives (continued)

whereas comparative year disclosures are consistent with those made in the prior years. Adjustments arising from the adoption of IFRS 9 have been recognised directly in equity as at 1 January 2018, as disclosed in Note 6.

Reclassifications to comparative information were made to conform to current year presentation as follows:

Negative interest income on placements with Central banks and other banks amounting to €453.166 was reclassified from ‘Interest income’ to ‘Interest expense’.

Changes in presentation comparative information were made to conform to current year presentation as follows:

Interest income relating to financial instruments classified at FVPL of €1.821.212 have been reclassified to ‘Income similar to interest income’ in order to be consistent with the presentation requirements of IFRS 9.

Changes in significant accounting policies

The accounting policies adopted in the consolidated financial statements are consistent with the accounting policies adopted in the financial statements for the year ended 31 December 2017, except for the adoption of new and revised standards, interpretations and amendments to existing standards with effect from 1 January 2018 and onwards. The changes in accounting policies from the adoption of the new standards are described below.

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The impact on adoption on the consolidated financial statements is disclosed in Note 6. Refer to page 24 for the accounting policy.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which is effective for annual periods beginning on or after 1 January 2018. In April 2016, the IASB issued clarifying amendments to IFRS 15 which provide additional application guidance but did not change the underlying principles of the standard. The standard was endorsed by the EU in September 2016. IFRS 15, which replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", provides a principles based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The recognition of such revenue is in accordance with five steps to: 1) identifying the contract with the customer; 2) identifying each of the performance obligations included in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognising revenue as each performance obligation is satisfied. The adoption of this Standard did not have an impact on the financial position of the Group. (Refer to page 22 for the accounting policy)

IAS 40: Transfers to Investment Property (amendments)

These amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. They state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments did not have a material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 2: Classification and Measurement of Share based Payment Transactions (amendments)

These amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments did not have impact on the consolidated financial statements.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments)

These amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Since the insurance subsidiaries of the Group have adopted IFRS 9 on 1 January 2018, these amendments do not have any impact on the results and financial position of the Group.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognises a nonmonetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. This interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation did not have a material impact on the consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

The IASB has issued the Annual Improvement to IFRSs 2014-2016 Cycle which is a collection of amendments to IFRSs. They did not have a material impact on the Group's results and financial position.

- IFRS 1 First-time Adoption of International Financial Reporting Standards: this improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- IAS 28 Investments in Associates and Joint Ventures: the amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Standards and Interpretations that are issued but not yet effective

Standards and Interpretations adopted by the European Union

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:

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Agreement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal From of a Lease.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Standards and Interpretations that are issued but not yet effective (continued)

Standards and Interpretations adopted by the European Union (continued)

IFRS 16 "Leases" (continued)

IFRS 16 introduces a single on balance sheet lease accounting model for lessees. A lessee recognises a right of use an asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional recognition exemptions for short term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The standard will affect primarily the accounting for the Group's operating leases.

As permitted by the standard, the Group intends to apply IFRS 16 on a retrospective basis but to take advantage of the option not to restate comparative periods by applying the modified retrospective approach. The Group intends to take advantage of the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments;
- Apply the recognition exception for leases with a term not exceeding 12 months and lease contracts for which the underlying asset is of low value;
- Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- Exclude initial direct costs from the measurement of the right of use asset;

The Group will recognise new assets and liabilities for its operating leases of commercial properties such branches. Subsequent to initial recognition, the Group will a) measure the right-of-use asset by applying the cost model and depreciate it on a straight line basis up to the end of the lease term and b) measure the lease liability by increasing and reducing the carrying amount to reflect interest on the lease liability and lease payments made, respectively.

The Group is in the process of finalising the assessment of the impact that the application of IFRS 16 will have on its financial statements in the period of initial application. The implementation is expected to increase the asset and financial liabilities by the same amount with no effect on equity or retained earnings of the Group.

IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019)

In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)".This amendment allows financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The Group does not expect this amendment to have a material impact on its results and financial position.

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019)

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The Group is in the process of assessing the impact of this interpretation on its results and financial position.

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021)

In May 2017, the IASB issued IFRS 17 "Insurance Contracts", a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective IFRS 17 will replace IFRS 4 "Insurance Contract" that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. Life, Non-Life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The Group does not expect this new standard to have impact on its financial position.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Standards and Interpretations that are issued but not yet effective (continued)

Standards and Interpretations adopted by the European Union (continued)

IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019)

In October 2017, the IASB issued "Long-term interests in Associates and Joint Ventures" (Amendments to IAS 28). The amendments clarify that an entity applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The Group does not expect this amendment to have a material impact on its financial position.

IFRS 3: Business Combinations (amendments)

The IASB issued amendments in Definition of a Business (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. These amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely, pending the outcome of its research project on the equity method of accounting. The Group does not expect this amendment to have a material impact on its results and financial position.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. They clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group does not expect these amendments to have a material impact on its results and financial position.

IAS 19: Plan Amendment, Curtailment or Settlement (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. They require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Group does not expect these amendments to have a material impact on its results and financial position.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Standards and Interpretations that are issued but not yet effective (continued)

Standards and Interpretations adopted by the European Union (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019)

In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

- IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group does not expect this framework to have a material impact on its results and financial position.

Changes in significant accounting policies from the adoption of IFRS 9

The following Standards and interpretations are those standards and interpretations which are relevant and significant to the Group and which have been applied in the preparation of these consolidated financial statements.

IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of application of 1 January 2018. The adoption resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Group did not early adopt any of IFRS 9 requirements in the previous years.

The classification, measurement and impairment requirements were applied retrospectively by adjusting the balance sheet at the date of initial application. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported in compliance with IAS 39 accounting and measurement methods. Refer to page 24 for the accounting policy.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

a. Functional and presentation currency
The consolidated financial statements of the Group are presented in Euro (functional and presentation currency), which is the currency of the primary economic environment in which the Group 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 consolidated 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 consolidated profit or loss (in other income), and other changes in the carrying amount except impairments are recognised in consolidated other comprehensive income.

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

Revenue from contracts with customers

The Group recognises revenue when control of the promised goods or services are transferred to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The new revenue recognition model introduced, applies the following five steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The performance obligation notion is new and in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

I. Contract balances

A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Receivables are recorded where the Group provides services to clients, consideration is due immediately upon satisfaction of a point in time service or at the end of a pre specified period for an over time service. It is the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities relate to payments received from customers where the Group is yet to satisfy its performance obligation. Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract assets and receivables are recorded within “other assets” and contract liabilities within “other liabilities” in the consolidated balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

II. Fee and commission income

Fee and commission income relates to loans and advances, credit cards, letters of guarantee documentary credits and transfers of money and other banking services as well as through insurance intermediation activities.

The Group earns fee income from a range of services it provides to its clients. Fee income can be divided into two categories:

- fees earned from services that are provided over a certain period of time, such as asset management and custody services
- fees earned from point in time services such as executing transactions and brokerage fees.

Over time services

Fees earned from services that are provided over a certain period of time are recognised pro-rata over the service period.

Point in time services

Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not subject to refund or another contingency beyond the control of the Group.

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

III. Rental income

Rental income from investment properties is accounted for on a straight-line basis over the period of the lease and is recognised in the consolidated income statement in 'Other income'.

IV. Dividend income

Dividend income is recognised in the consolidated income statement in "Other income" when the Group's right to receive payment is established i.e. upon approval by the general meeting of the shareholders.

V. Gains from the disposal of investment property

Net gains on disposal of investment property are recognised in the consolidated income statement in "Other income" when the buyer accepts ownership of the property and the control of the property to the buyer is completed.

Interest expense

Interest expense is recognised in the consolidated income statement for all interest bearing assets and liabilities on an accrual basis using the effective interest method.

Fee and commission expense

Fees and commission expense is generally recognised in the year when the service has been provided to the clients or to the Group respectively. Fee and commission expense relates to loans and advances, credit cards, letters of guarantee documentary credits and transfers of money and other banking services as well as through insurance intermediation activities.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in consolidated other comprehensive income or directly in equity. In this case, the tax is also recognised in consolidated 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 Group 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 interpretation. If applicable tax regulation is subject to interpretation, the Group 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 consolidated financial statements. However, 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 Group where there is an intention to settle the balances on a net basis.

Financial instruments

Date of recognition

“Balances with central banks”, “Deposits by banks’, ‘Customer deposits”, “Loans and advances to customers” are recognised when cash is received by the Group or advanced to the borrowers. All other financial assets and liabilities are initially recognised on the trade date. Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis.

Initial recognition and measurement of financial instruments

The classification of financial assets on initial recognition depends on their contractual terms and the business model for managing the instruments, as described in” Classification and measurement of financial assets and liabilities” section below.

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

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in “Net gains on financial instrument transactions” caption. In the cases, where the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition (continued)

Measurement categories of financial assets and liabilities

Financial assets are measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The Group classifies and measures its derivatives and trading portfolios at FVTPL.

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost or at FVTPL when they are held for trading or relate to derivative instruments.

Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets depends on how these are managed as part of the Business Models the Group operates under and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)).

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group’s key management personnel;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

- The expected frequency, value and timing of sales are also important aspects of the Group’s assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

Contractual cash flows characteristics test (SPPI assessment)

The Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding (SPPI criteria).

For the purpose of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for the other basic lending risks and costs (i.e. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and liabilities (continued)

Contractual cash flows characteristics test (SPPI assessment) (continued)

term that could change contractual cash flows such that it would not meet the SPPI criteria and be inconsistent with a basic lending arrangement. In making the assessment, the Group considers:

- contingent features;
- leverage features;
- prepayment and extension terms;
- convertible features;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money

In addition, where the contractual terms of a financial asset introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

Derivative financial instruments

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.

- It is settled at a future date.

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value.

Revaluations of currency derivatives are included in the consolidated income statement in "Net gains on financial instrument transactions" .

Interest income and expense are included in the 'Income similar to interest income' and "Interest expense" captions respectively in the consolidated income statement.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

This classification relates to cash and balances with central banks, placements with other banks, loans and advances to customers that pass the SPPI test, debt securities held under the 'Hold to collect' business model and other financial assets. These financial assets are measured at amortised cost using the effective interest rate method (EIR) less allowances for expected credit losses (ECL).

After their initial recognition, financial instruments measured at amortised cost are measured at amortised cost using the effective interest method, less any provision for impairment. Amortised cost is calculated by taking into account

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and liabilities (continued)

Financial assets measured at amortised cost (continued)

any discount or premium on acquisition that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Expected credit losses to cover credit risk on loans and advances to customers" in the case of loans and advances to customers and in 'Expected credit losses of other financial instruments' for all other financial instruments.

Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in consolidated income statement in "Interest income" and "Net gains on financial instrument transactions" respectively . Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Financial assets or financial liabilities held for trading

Financial assets held for trading represent assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in "Net gains on financial instrument transactions" in the consolidated income statement. Interest income is included in the caption "Income similar to interest income".

This classification relates to debt instruments that have been acquired principally for the purposes of selling or repurchase in the near term.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by Management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and liabilities (continued)

Financial assets and financial liabilities at fair value through profit or loss (continued)

- The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Such designation is determined on an instrument-by-instrument basis.

Financial assets and financial liabilities at FVTPL are recorded in the consolidated balance sheet at fair value. Changes in the fair value are recognised in “Net gains on financial instrument transactions” in the consolidated income statement.

Interest income and expense are included in the captions ‘Income similar to interest income’ and ‘Interest expense’ respectively in the consolidated income statement according to the terms of the relevant contract.

Dividend income is recognised in ‘Other income’ in the consolidated income statement when the right to receive payment has been established.

Financial assets mandatorily classified at FVTPL include certain investment fund holdings and other securities for which the contractual cash flows do not meet the SPPI test, or the financial assets are part of a portfolio under a business model that is to manage and whose performance is evaluated on a fair value basis.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in consolidated income statement in “Other income” when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

Other financial liabilities

Other financial liabilities include “Deposits and other customer accounts”, “Amounts due to other banks and deposits from banks” and “other liabilities”.

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers and deposits by banks is at amortised cost, using the effective interest method.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition apart from exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset have expired. The Group also

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and liabilities (continued)

Derecognition of financial assets and financial liabilities (continued)

derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.
The Group transfers a financial asset if, and only if, either:

- The Group transfers its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but assumes an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

A transfer only qualifies for derecognition if either:

- The Group transfers substantially all the risks and rewards of the asset; or
- The Group neither transfers nor retains substantially all the risks and rewards of the asset, but it transfers control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

Forborne and modified loans

The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximise recovery.

In the event that the terms and conditions of a financial asset are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. A derecognition of a financial asset (or part of a financial asset) and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows.

Where the modification does not result in derecognition, the Group recognises a modification gain or loss, based on the modified cash flows discounted at the original effective interest rate and the existing gross carrying value of the financial asset. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired as defined are no longer present. A modified financial asset will transfer out of Stage 2 when it no longer satisfies relative thresholds set to identify significant increases in credit risk, which are based on changes days past due and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

In the case of a new financial asset classified at amortised cost or FVOCI, an assessment is performed on whether it should be classified as Stage 1 or POCI for ECL measurement. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's "incurred loss" model with a forward looking "expected credit loss model". This requires considerable judgement over how changes in economic factors affect expected credit losses (ECLs), which is determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are measured at amortised cost or FVOCI ;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

Under IFRS 9 no impairment loss is recognised on equity investments.

Impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible from possible default events over the expected life of the financial instrument (lifetime ECL) in the event of a significant increase in credit risk since initial recognition otherwise the allowance for ECL is based from possible default events within the next 12 months (12 month ECL). For financial assets that are purchased or originated credit impaired (POCI) an impairment allowance is required resulting from possible default events over the expected life of the financial instrument (lifetime ECL).

The Group groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

Stage 1: Financial assets which have not had a significant increase in credit risk since initial recognition are considered to be Stage 1 and 12-month ECL is recognised.

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised.

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Group defines credit-impaired and default) and lifetime losses are recognised.

POCI: Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses. The Group only recognises the cumulative changes in lifetime ECLs since initial recognition.

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet. For financial assets measured at fair value through other comprehensive income (OCI) the carrying value is not reduced, but the accumulated amount of impairment allowance is recognised in OCI. For off-balance sheet instruments, accumulated provisions for ECL are reported in 'Other liabilities', except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL for the year is recognised within the consolidated income statement in 'Expected credit Losses to cover credit risk on loans and advances to customers'.

The Group calculates 12-month ECLs and lifetime ECLs either on an individual basis or collective basis.

The individual assessment is performed for individually significant stage 3 assets. A risk based approach is used on the selection criteria of the individually assessed population NPE or forborne NPE exposures above a certain amount. The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (i.e. the realisable value of the collateral, the business prospects of the customer).

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/ segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type.

Key impairment concepts

1. *Significant credit risk increase for loans and advances to customers*

The Group uses staging criteria to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The criteria for determining whether credit risk has increased significantly include delinquency and forbearance measures. Facilities with at least two instances of 30 days past due over a year are classified in Stage 2.

The Group considers, as a backstop criterion, that a significant increase in the credit risk occurs when contractual payments are more than 30 days past due. Loans that meet this condition are classified in Stage 2.

2. *Significant credit risk increase for financial instruments other than loans and advances to customers*

Low credit risk simplification is adopted for debt security instruments, loans and advances to banks and balances with central banks with external credit ratings that are rated as investment grade. For debt security instruments and balances with Central banks and placements with other banks with external credit ratings that are rated as investment grade, the assessment of low credit risk is based on the external credit rating. For debt securities and balances with Central banks and placements with other banks which are below investment grade, the low credit risk simplification does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date. Significant deterioration in credit risk is considered to have occurred when the rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investment grade to speculative and then to highly speculative).

All financial assets are transferred out of Stage 2 into Stage 1, if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above.

3. *Credit impaired and definition of default*

Exposures that meet the non-performing exposure (NPE) definition as per European Banking Authority (EBA) standards are considered to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for credit risk management purposes.

According to the EBA Technical standards in 2014 with respect to non-performing and forborne exposures which were adopted by the European Commission through the Commission implementation Regulation EU 2015/1278 and CBC Directive on Supervisory reporting on forbearance and non-performing exposures, non performing exposures are defined as those exposures that satisfy one of the following conditions:

- The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due;
- Exposures in respect of which a default is considered to have occurred in accordance with Article 178 of the Capital Requirement Regulation (CRR) 575/2013;
- Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due;

When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is 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.

Exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, only when all of the following conditions are met:

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Key impairment concepts (continued)

3. *Credit impaired and definition of default (continued)*

- The extension of forbearance measures does not lead to the recognition of impairment or default.
- One year has passed since the forbearance measures were extended. In case of grace period loans, the exposure can exit the NPE status one year after the end of the grace period.
- 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.
- No unlikely-to-pay criteria exist for the debtor.
- The debtor has made post-forbearance payments of a not-insignificant amount of capital (different capital thresholds apply according to the restructuring type).

At the time an account ceases to be considered as NPE it exits Stage 3. If the loan is 30 days past due twice over the last 12 months it is transferred to Stage 2, otherwise it is transferred to Stage 1.

Debt securities, placements with other banks and balances with central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal.

4. *Scenarios and forward-looking inputs*

The Group uses reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated for three macroeconomic scenarios, baseline, pessimistic and optimistic and the output is the weighted average ECL based on the assigned probability of each scenario.

Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Forward looking information embedded in the PDs relates to GDP growth, unemployment rates, industrial production, commercial price indices and residential price indices. This process involves consideration of external actual and forecast information provided by the Central Bank of Cyprus, Moody’s Analytics and other providers of macroeconomic forecasts.

In regards to the LGD, the forward looking information is incorporated via the property indices for the types of properties (residential and commercial).

Predicted relationships between the key indicators and default and loss rates on the portfolios of financial assets have been developed based on an analysis of historical data over the past 6 years.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date.

5. *Inputs into measurement of ECLs*

The key inputs into the measurement of ECLs are the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Key impairment concepts (continued)

5. *Inputs into measurement of ECLs (continued)*

These parameters are derived from statistical models and other historical data. They are adjusted to reflect forward-looking information.

a. *Probability of default (PD)*

PD represents the probability an exposure has to default and is calculated based on statistical models using a combination of Division, customer type and product type criteria and taking into consideration the Group's historical default rates and forward looking information based on macroeconomic inputs. For the purposes of the PD estimation the Group uses the EBA definition of NPE as its definition of default. As a result the Group has applied a methodology that suits the Group's portfolio, complexity and data availability.

The Group's IFRS 9 PD estimation approach consists of the following key steps:

- Use historic default rates to estimate the through the cycle probabilities of default;
- Establish a model linking the default rates to macroeconomic variables thus, mapping external market dynamics onto Group's internal credit risk parameters i.e. to fit a distribution function to the observed cumulative default rates using a transformation of the Weibull distribution;
- Obtain the point in time (PIT) PDs by adjusting the Through the Cycle (TTC) conditional PD profile from step 1 using the forecasted default rate established in step 2 for years 1-3 and forecasted for the default rates based on appropriate long term assumptions with regards to economic activity.

PDs are estimated on a number of observation basis in light of the limited number of observations. For Legal Entities the PDs are estimated at a debtor level and at a facility level for all other segments.

b. *Loss given default (LGD)*

LGD represents an estimate of the loss if default occurs at a given time. It is usually expressed as a percentage of the EAD. It takes into account parameters such as the collateral value which is discounted to the present value determining the amount of the expected shortfall.

The structure of the LGD model considers

- Curing where the probability of cure model was derived based on historical observations.
- Non-curing including cash recovery or realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

c. *Exposure at default*

EAD represents the expected exposure in the event of a default during the life of a financial instrument. EAD methodology is differentiated in the following categories: revolving and non-revolving exposures. In case of revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. The credit conversion factor model is derived based on historical data from the last 6 years. For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date. ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Key impairment concepts (continued)

6. *ECL measurement period*

The period for which lifetime losses are determined is based on the contractual life of a financial instrument. For revolving loans, the period for which lifetime losses are determined is set at 12 months representing the next review date of the facility, at which the Group has the right to limit or to cancel the exposure. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

7. *Purchased or originated credit impaired financial assets (POCI)*

POCI financial assets are recorded at fair value on initial recognition. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For POCI financial assets, the Group only recognises the cumulative changes in lifetime ECL since initial recognition in the loss allowance. POCI remain a separate category until derecognition.

Interest income and similar income

Interest income is recognised in the consolidated income statement by applying the effective interest rate (EIR) to the gross carrying amount of financial asset other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount.

For purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset.

Any recoveries of interest from settled or cured exposures is recognised as a positive movement in expected credit losses. This is recognized through the 'Reversal of expected credit losses to cover credit risk on loans and advances' in the consolidated Income statement.

Interest income from financial assets at amortised cost and financial assets at FVOCI is presented separately within the caption 'interest income'.

Interest income from financial assets at FVTPL is presented within the caption 'Income similar to interest income'.

The effective interest rate method

Interest income and expense are recognised in the consolidated income statement by applying the effective interest rate (EIR) for all financial instruments measured at amortised cost and debt instruments at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

Negative interest income

The Group holds loans and advances to banks and central banks with negative interest rates. Negative interest income relating to these other assets is recorded in 'Interest expense' in the consolidated income statement.

Write-offs

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such cases, financial assets are written off either partially or in full. Write off refers to both contractual

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Write-offs (continued)

and non-contractual write offs. Write-offs and partial write-offs represent derecognition/ partial derecognition events. If the amount of write-offs is greater than the amount of accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Recoveries, in part or in full, of amounts previously written-off are credited to the consolidated income statement in “Expected credit losses to cover credit risk on loans and advances to customers”.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position 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 Group or the counterparty.

Financial assets and liabilities (policy applicable before 1 January 2018)

Classification, measurement and derecognition

Derivative Financial Instruments

The derivative financial instruments that the Group 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.

Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the consolidated income statement. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for, accordingly.

Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in ‘Gain from disposal of financial assets at fair value through profit or loss’. Interest income is included in the captions 'Income similar to interest income' and in the consolidated income statement according to the terms of the relevant contract.

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Classification, measurement and derecognition (policy applicable before 1 January 2018) (continued)

Available for sale financial assets (continued)

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 consolidated income statement. Available for sale financial assets are derecognised when the cash flows from the investments are no longer collectable or the Group 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 is 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 the consolidated 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 consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Interest and dividends on financial assets held in this portfolio are recognised in the respective categories in the consolidated income statement.

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 consolidated income statement, whereas exchange differences in non-monetary securities in the consolidated other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in consolidated other comprehensive income.

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 Group'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 Group 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 Group 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 consolidated 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Classification, measurement and derecognition (policy applicable before 1 January 2018) (continued)

Loans and other receivables (continued)

The Group 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 consolidated income statement.

The Group had defined policies and procedures for loan impairment and provisioning which were in line with Impairment and Provisioning Procedures Directives issued by Central Bank of Cyprus, which were in effect as at 31 December 2017.

The Group initially assesses whether objective evidence of impairment exists on an individual basis for advances that the Group 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 Group 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 than 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.

For the purposes of an impairment assessment on a collective basis, advances are grouped based on their credit risk characteristics. The Group 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 behavior, 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 Group has transferred substantially all the risks and rewards to third parties.

Software

An intangible asset is recognised when it is probable that future economic benefits will arise through its use.

The acquisition cost of software which will generate future economic benefits for the Group is recognised as an intangible asset. Costs associated with maintenance of computer software are charged to the consolidated 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. Computer software is amortised over a period of 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 reporting date.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Land and buildings are measured 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 every year to ensure that the carrying amount does not differ materially from the fair value determined at the reporting date. A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus. All other property and equipment items are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Property 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 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 and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other property 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 10%
- Furniture, fittings and equipment 10%-20%

The residual values and useful lives of the the property and equipment are reviewed and adjusted, if appropriate, at each reporting date. Any gains or losses on disposals of property and equipment are included in the consolidated income statement in "Other income" 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.

Impairment of non-financial assets

Intangibles that have an indefinite useful life, 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 that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Investment property

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

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 the consolidated income statement in "Other income". Valuations are carried out by independent qualified valuers applying valuation models recommended by the International Valuation Standards Council.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property (continued)

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

Investment properties held under operating leases by third parties are classified as investment properties in the consolidated statement of financial position. The rental income arising from operating leases is recognised on a straight-line basis over the duration of the lease.

Operating leases

The Group 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 consolidated income statement on a straight-line basis over the period of the lease.

Mandatory cash balances with Central Bank of Cyprus (minimum reserve account)

The mandatory cash balances with the Central Bank of Cyprus 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 consolidated statement of cash flows.

Cash and cash equivalents

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

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 consolidated 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 and legal obligations are recognised when: a) the Group 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 a 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.

Employee Benefits

The Group operates a defined contributions pension plan .A defined contributions plan is a pension plan under which the Bank and its employees pay fixed contributions into a separate fund. The Group’s contributions are recognised in the period they relate to and are included in staff costs. For a defined contributions plan the Group 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)
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 Group and the employees contribute to the Government Social Insurance Fund based on employees' salaries in accordance with legal requirements.

Share capital

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

2. 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.

3. 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.

3. GOING CONCERN

The Board of Directors and Management have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Board of Directors and Management believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. They have also concluded that there are no material uncertainties that could cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements.

The Board of Directors and Management, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Capital

The Bank maintained a capital adequacy ratio as at 31 December 2018 of 14,3%, in excess of the regulatory minimum applicable as of 31 December 2018.

The Bank following the acquisition of USB's business on 18 January 2019, is not in compliance with the minimum Overall Capital Requirement ('OCR'). The Group has developed a financial and capital plan ("Plan"), which was submitted to Central Bank of Cyprus in April 2019. One of the most important objectives of the capital plan was to ensure that the Group has sufficient resources and capital in order to meet its capital requirements and to fund the future expansion of the Group, while at the same time continue to internally resolve non-performing loans.

The Board of Directors and Management considering the financial and capital plan together with the major shareholder's commitment to the Central Bank of Cyprus for a capital injection if required before the end of 2019, believe that the Group will maintain sufficient capital to meet the minimum regulatory capital requirements and fund the Group's growth strategy throughout the period of the assessment. The Group remains focused to implement the actions contemplated in the Plan.

Liquidity

The Bank maintains healthy liquidity levels, with a liquidity coverage ratio as at 31 December 2018 of 552,9%, well in excess of the regulatory minimum of 100%.

Based on the projections of management of the Group, it is expected that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

3. GOING CONCERN (continued)

Non- Performing exposures

The Bank has significantly reduced its Non- Performing Exposures (NPEs) from 56,2% in 2017 to 42,6% at the end of 2018 while the provision coverage of NPEs has been enhanced to 56,0% (compared to 51,7% at 31 December 2017). Reduction of NPE balances remains as one of the major strategic objectives of the Group with specific and targeted measures and actions for organic NPE management.

4. OPERATING ENVIRONMENT

The Cyprus economy has been recovering at an accelerating pace since 2014.The medium-term outlook remains favourable, driven by higher demand in the sectors of tourism, construction, business services, transport and retail trade and as a consequence falling unemployment and broadening investments. At the same time, the Cypriot economy continues to face challenges primarily in relation to high public indebtedness and a high level of NPEs.

Real GDP (Gross Domestic Product) increased by 3,9% in 2018 following increases of 4,5% and 4,8% in the preceding two years (Cyprus Statistical Service). The outlook for 2019-2020 remains positive with real GDP expected to rise by 3,8% and 3,4% respectively according to the Cyprus Statistical Service.

On the expenditure side, consumption has been the main driver in the upswing which can be attributed to higher employment level and disposable incomes as well as spill over effects from stronger external demand.

Employment increased by 5,6%, in the first three quarters not-seasonally adjusted, compared with an increase of 4,6% in 2017 (Cyprus Statistical Service). As a result the unemployment rate dropped to an average of 8,7% in the first three quarters from 11,1% in 2017 and contributed to strong private consumption growth (Eurostat). Flexibility of the labour market and strong economic activity contributed to the normalisation of labour conditions.

Exports of goods and services continued to grow robustly in 2018 rising by 6,7% in real terms, in the first three quarters (Cyprus Statistical Service). Exports are expected to continue to underpin the recovery. Cyprus might also be impacted negatively by Brexit. Cyprus has close trade and investment links with the UK, which means that its economic recovery is vulnerable to any negative impact on the UK economy caused by Brexit.

Consumer inflation is on a positive trajectory following the fast correction during the crisis years. Inflation accelerated modestly in 2018 to 1,4% from 0,5% in 2017 (Cyprus Statistical Service). This was owed in large to higher global energy prices. Inflation is expected to accelerate further in the medium term as tighter labour market conditions gradually lead to higher wages, but will remain relatively modest by historical standards.

Government finances moved to a surplus of 1,8% of GDP in 2017. The budget surplus is estimated at 2,8% of GDP in 2018, according to the Cyprus Statistical Service, excluding the impact of banking support measures related to the Cyprus Cooperative Bank (CyCB). The budget surplus is driven by buoyant revenue growth underpinned by strong economic activity. Expenditure increases will be driven mainly by public sector pay rises and social transfers, but are expected to lag revenue growth. The budget cost of the ESTIA Scheme - a State-supported scheme to aid the loan repayment of vulnerable groups with non-performing exposures (NPEs) backed by primary residences – will be relatively low and its impact on the budget balance will be marginal.

Public debt peaked over 2015-2016. After a one off increase in 2018 due to the placement of government bonds as part of the partial sale of Cyprus Cooperative Bank, the decline is expected to resume and progress steadily to 85% by 2021.

In July 2018, the Cyprus government has taken additional steps to address regulatory issues relating to NPEs. Parliament voted on Cyprus government legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures, along with ESTIA, will support further reductions in the remaining stock of NPEs.

There has been a sharp reduction in NPEs by 50% over 2018 due to a sale of NPE portfolio of €2,7 billion gross book value in Q2 2018 by Bank of Cyprus and the transfer of Cyprus Cooperative Bank's NPEs OF €6,9 billion gross book value to a state owned Asset Management Company in Q3 2018.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

4. OPERATING ENVIRONMENT (continued)

In October 2018 Fitch Ratings upgraded the Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3. The improvement in the ratings since the crisis in 2013 reflects the government's fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector and the successful implementation of the economic adjustment programme.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated 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 Group's Management and the Board of Directors 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.

Critical accounting estimates and assumptions

a) Classification of loans and advances to customers

The Group exercises judgement upon determining the classification of loans and advances to customers, which relate to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. Further, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rates could significantly affect future cash flows.

b) Calculation of expected credit losses

The calculation of ECL requires management to apply significant judgement and make estimates and assumptions. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies. Elements of ECL models that are considered accounting judgements and estimates include:

Significant credit risk increase for loans and advances to customers

The Group assesses whether significant increase in credit risk has occurred since initial recognition using staging criteria and qualitative information in certain cases. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated by the Group's Executive Management.

Scenarios and macroeconomic factors

The Group determines the ECL, which is a probability-weighted amount by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on Management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Qualitative adjustments or overlays are

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

b) Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Bank's Executive Management. No Management overlays were performed during the reporting period.

The Group uses three different economic scenarios. For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios; base (50% weight), pessimistic (25% weight) and optimistic (25% weight). Under the pessimistic scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 10%, the timing of recovery of collaterals is increased by 1 year and the selling costs are increased by 1%. Under the optimistic scenario operational cash flows are increased by 25% (capped to customer balance), applied haircuts are decreased by 5%, the timing of recovery of collaterals is decreased by 1 year and the selling costs are decreased by 1%.

Under the base scenario, selling costs are assumed to be on average 4% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values. 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 (by the CBC).

For all real estate collaterals, the following haircuts were applied to the indexed open market values as at 31 December 2018:

	Average haircut for urban locations	**Average haircut for rural locations**
Residential Real Estate (Completed)	6%	11%
Residential Land	10%	17%
Commercial Real Estate (Completed)	9%	18%
Commercial Land	12%	18%
Other Land, Agriculture & Protection Zone Real Estate	25%	25%
Semi-completed Real Estate (residential & commercial)	13%	17%
Special-use Real Estate (i.e. Hotels, shopping malls)	5%	11%

The above average haircuts depend on the location of each collateral.

The table below indicates the most significant macroeconomic variables as well as the scenario weights used by the Group as at 31 December 2018 and 1 January 2018 respectively.

31 December 2018

Year	**Scenario**	**Weight**	**Real GDP (% change)**	**Unemployment rate (% of labour force)**	**Industrial production (%)**	**Residential Price Index (average change %)**	**Commercial Price Index (average change %)**
	Baseline	50%	1,63%	7,72%	3,93%	2,70%	3,00%
2019	Optimistic	25%	2,85%	7,29%	1,51%	3,80%	4,10%
	Pessimistic	25%	-2,72%	10,00%	-3,63%	-0,26%	0,00%
	Baseline	50%	1,33%	7,55%	1,52%	3,50%	3,00%
2020	Optimistic	25%	2,10%	7,03%	2,25%	4,82%	4,32%
	Pessimistic	25%	-2,49%	12,42%	-2,11%	-0,92%	-1,42%
	Baseline	50%	1,14%	7,43%	1,15%	3,50%	2,00%
2021	Optimistic	25%	1,34%	6,98%	1,35%	4,20%	2,70%
	Pessimistic	25%	1,75%	12,90%	1,71%	0,00%	-0,14%
	Baseline	50%	1,20%	7,38%	1,17%	2,00%	2,00%
2022	Optimistic	25%	1,22%	6,94%	1,19%	2,00%	2,00%
	Pessimistic	25%	2,70%	11,91%	2,59%	0,00%	0,00%

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

b) Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

1 January 2018

Year	Scenario	Weight	Real GDP (% change)	Unemployment rate (% of labour force)	Industrial production (%)	Residential Price Index (average change %)	Commercial Price Index (average change %)
2018	Baseline	50%	2,68%	10,00%	3,08%	3,00%	3,1%
	Optimistic	20%	3,82%	9,56%	5,20%	4,33%	4,43%
	Pessimistic	30%	-1,76%	12,47%	-7,57%	-0,06%	0,00%
2019	Baseline	50%	2,08%	9,33%	3,38%	3,50%	3,0%
	Optimistic	20%	2,34%	8,80%	4,11%	4,32%	3,82%
	Pessimistic	30%	-1,75%	14,34%	-2,65%	-1,18%	-1,68%
2020	Baseline	50%	1,81%	8,88%	3,04%	3,50%	3,00%
	Optimistic	20%	1,81%	8,43%	3,04%	3,31%	2,81%
	Pessimistic	30%	2,45%	14,44%	6,50%	0,00%	0,00%
2021	Baseline	50%	1,69%	8,52%	2,90%	2,00%	2,00%
	Optimistic	20%	1,69%	8,05%	2,90%	2,00%	2,00%
	Pessimistic	30%	3,27%	13,11%	7,29%	0,00%	0,00%

Assessment of loss given default

A factor for the estimation of LGD is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

The timing of recovery of real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers is 6 years.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. Judgement may also be exercised over staging during the individual assessment.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses on loans and advances.

Modelling adjustments

Forward looking models have been developed for ECL parameters (PD and LGD) for all portfolios sharing similar characteristics. Governance of these models lies with the Risk Management Division and the Finance Division.

ECL allowances also include off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated based on the relevant ECL model.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

b) Calculation of expected credit losses (continued)

Expected lifetime of revolving facilities

Judgement is exercised on the measurement period of expected lifetime for revolving facilities. The determination of the expected life for the revolving portfolio is sensitive to changes in contractual maturities resulting from business decisions. The Group exercises judgement in determining the period over which ECL should be computed.

c) 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 Group 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 (Notes 19 and 20). Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

d) Deferred tax assets

Deferred tax assets (Note 27) are recognised by the Group 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 as supported by the Group's Business plans, 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.

e) 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 Group 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.

Judgment is required to assess the expected value of uncertain tax positions that are incorporated into the estimate of income and deferred tax and the assessment of the related probabilities, including in relation to the interpretation of tax laws and the assessment of the related probabilities. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

f) Fair value of building held for own use and investment properties

The Group's accounting policy is to revalue property held for own use every year end. 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.

The Group's accounting policy for investment property requires that it is measured at fair value each reporting date. 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 would have existed 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 and require significant amount of judgement.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

g) Change in accounting estimates

On 1 January 2018, the Group changed the annual depreciation rate for leasehold improvements from 3% to 10% as it considers that 10% is more appropriate. As a result of this change, additional depreciation of €218.127 was recognised on leasehold improvements during the year ended 31 December 2018. The effect of the change in accounting estimate is expected to be the same in future periods, up until the leasehold improvements are fully depreciated.

h) Provision for impairment of loans and advances to customers (applicable before 1 January 2018)

The Group reviews loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated 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 consolidated 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, CBC indices for commercial properties and shops). For all real estate collaterals, liquidation haircuts of 2%-25% as provided by an independent external provider (depending on the location, property type (urban or rural) and liquidation method of each collateral) were applied to the indexed open market values. 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.

Selling costs are assumed to be on average 4% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values.

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 Group'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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

6. TRANSITION DISCLOSURES

6.1 Transitional Consolidated Balance sheet on adoption of IFRS 9

	IAS 39 carrying amount 31 December 2017	Re-classifications and re-measurements	IFRS 9 carrying amount 1 January 2018
	€	€	€
Assets			
Cash and balances with Central Banks	326.932.139		326.932.139
Placements with other banks	51.629.291		51.629.291
Loans and advances to customers	513.519.525	(5.810.621)	507.708.904
Available for sale financial assets	226.859.009	(226.859.009)	N/A
Financial assets at amortised cost		64.586.483	64.586.483
Financial assets at fair value through other comprehensive income		156.101.760	156.101.760
Financial assets at fair value through profit or loss	28.035.336	5.956.219	33.991.555
Derivative financial instruments	32.267		32.267
Property and equipment	24.085.092		24.085.092
Intangible assets	935.780		935.780
Investment properties	64.730.039		64.730.039
Deferred tax assets	5.716.155		5.716.155
Other assets	2.666.421		2.666.421
Total assets	**1.245.141.054**	**(6.025.168)**	**1.239.115.886**
Liabilities			
Amounts due to other banks and deposits from banks	2.480.674		2.480.674
Deposits from customers	1.103.199.997		1.103.199.997
Derivative financial instruments	470.110		470.110
Current tax liability	91.491		91.491
Deferred tax liabilities	887.501		887.501
Other liabilities	21.813.798	212.149	22.025.947
Total liabilities	**1.128.943.571**	**212.149**	**1.129.155.720**
Equity			
Share Capital	14.113.487		14.113.487
Share premium	88.554.704		88.554.704
Revaluation and other reserves	8.408.033	446.951	8.854.984
Retained earnings/ (Accumulated losses)	5.121.259	(6.684.268)	(1.563.009)
Total equity attributable to the owners of the Parent Bank	**116.197.483**	**(6.237.317)**	**109.960.166**
Total equity	**116.197.483**	**(6.237.317)**	**109.960.166**
Total equity and liabilities	**1.245.141.054**	**(6.025.168)**	**1.239.115.886**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

6. TRANSITION DISCLOSURES (continued)

6.1 Transitional Consolidated Balance sheet on adoption of IFRS 9 (continued)

The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial adoption. As permitted by IFRS 9 the Group has not restated comparative periods. The impact on the adoption date, 1 January 2018, was therefore recognised through the consolidated statement of changes in equity.

6.2 Classification and measurement of financial instruments

On adoption of the standard on 1 January 2018, the impact of the changes related to the classification and measurement of financial assets held as at 1 January 2018 (excluding effect of expected credit losses) is €109K and is analysed as follows:

	Classification under IAS 39	Carrying amount IAS 39	New classification under IFRS 9	New carrying amount IFRS 9 (before ECLs)
Financial assets		€		€
Cash and balances with Central Banks	Loans and receivables	326.932.139	Amortised cost	326.932.139
Placements with other banks	Loans and receivables	51.629.291	Amortised cost	51.629.291
Loans and advances to customers	Loans and receivables	513.519.525	Amortised cost	513.519.525
Debt securities	Available for sale	214.654.860	FVTOCI	149.853.830
Debt securities	Available for sale	-	Amortised cost	64.910.338
Debt securities	Trading (FVTPL)	15.810.292	FVTPL	15.810.292
Equity securities	Available for sale	12.204.149	FVTOCI	6.247.930
Equity securities	Available for sale	-	FVTPL	5.956.219
Derivatives	FVTPL	32.267	FVTPL	32.267
Financial liabilities				
Other liabilities	Amortised cost	21.813.798	Amortised cost	21.813.798

6. TRANSITION DISCLOSURES (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Re-classifications	Re- measurements		IFRS 9 carrying amount 1 January 2018
			ECL	Other	
	€	€	€	€	€
Financial assets					
Amortised cost under IFRS 9:					
Cash and balances with Central Banks	326.932.139	-	-	-	326.932.139
Placements with other banks	51.629.291	-	-	-	51.629.291
Derivative financial instruments	32.267	-	-	-	32.267
Other assets	1.789.962	-	-	-	1.789.962
Loans and advances to customers					
Carrying amount under IAS 39	513.519.525				
Re- measurement: ECL allowance			(5.810.621)		
Carrying amount under IFRS 9					507.708.904
Investments (debt instruments)					
Carrying amount under IAS 39	-				
Re – classification: from available-for- sale (note 2)		64.801.030			
Re- measurement: other				109.308	
Re- measurement: ECL allowance			(323.855)		
Carrying amount under IFRS 9					64.586.483
Total financial assets measured at amortised cost	**893.903.184**	**64.801.030**	**(6.134.476)**	**109.308**	**952.679.046**
Fair value through other comprehensive income (FVTOCI) under IFRS 9:					
Investments (debt instruments)					
Carrying amount under IAS 39	-				
Re – classification: from available-for- sale (note 3)		149.853.830			
Carrying amount under IFRS 9					149.853.830
Investments (equity instruments)					
Carrying amount under IAS 39					
Re – classification: from available-for- sale (note 4)		6.247.930			
Carrying amount under IFRS 9					6.247.930
Total financial assets measured FVTOCI	**-**	**156.101.760**	**-**	**-**	**156.101.760**
Fair value through profit or loss – Held for trading:					
Carrying amount under IAS 39 – debt securities	15.810.292	-	-	-	15.810.292
Carrying amount under IAS 39- derivatives	32.267				32.267
Total financial assets measured FVTPL - Held for trading	**15.842.559**	**-**	**-**	**-**	**15.842.559**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

6. TRANSITION DISCLOSURES (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Re-classifications	Re- measurements		IFRS 9 carrying amount 1 January 2018
			ECL	Other	
	€	€	€	€	€
Fair value through profit or loss (Designated):					
Carrying amount under IAS 39	12.225.044				
Re – classification to fair value through profit or loss (Mandatory):		(12.225.044)			
Carrying amount under IFRS 9					-
Total financial assets measured FVTPL (Designated)	12.225.044	(12.225.044)			-
Fair value through profit or loss (Mandatory):					
Carrying amount under IAS 39	N/A				
		12.225.044			
		5.956.219			
Carrying amount under IFRS 9					18.181.263
Total financial assets measured FVTPL (Mandatory)	**12.225.044**	**5.956.219**	**-**	**-**	**18.181.263**
Investments – Available –for- sale financial assets:					
Carrying amount under IAS 39	226.859.009				
Re – classification: to amortised cost		(64.801.030)			
Re – classification: to FVTOCI		(156.101.760)			
Re – classification: to FVTPL		(5.956.219)			
Carrying amount under IFRS 9					N/A
	226.859.009	**(226.859.009)**	**-**	**-**	**-**

	IAS 39 carrying amount 31 December 2017	Re – classification from fair value through profit or loss (Designated) Re – classification: from available-for- sale (note 5)		Other	IFRS 9 carrying amount 1 January 2018
	€	€	€	€	€
Non-Financial liabilities					
Other liabilities					
Carrying amount under IAS 39	21.813.798				
Re- measurement: ECL allowance			212.149		
Carrying amount under IFRS 9					22.025.947
Other liabilities	**21.813.798**	**-**	**212.149**	**-**	**22.025.947**
Derivative financial instruments	470.110	-	-	-	470.110
Amounts due to other banks and deposits from banksfrom banks	2.480.674				2.480.674
Deposits and other customer accounts	1.103.199.997				1.103.199.997

1. All loans and other advances to customers are held under held to collect business model and meet the SPPI criteria and therefore are carried at amortised cost under IFRS 9.

2. The Group held debt instruments of €64.801.030 which were classified as available for sale under IAS 39. As of 1 January 2018, these debt instruments are managed within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Accordingly, since these instruments meet the SPPI criteria, the Group classified these investments as debt instruments measured at amortised cost.

6. TRANSITION DISCLOSURES (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

3. The Group held debt instruments of €149.853.830 which were classified as available for sale under IAS 39. As of 1 January 2018, part of these debt instruments are managed within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling financial assets and have therefore been classified at fair value through other comprehensive income.

4. The Group has made an irrevocable election to classify its equity investments of a carrying value of €6.247.930 that were classified as available-for-sale under IAS 39 as equity instruments at FVOCI on transition to IFRS 9.

5. The Group holds equity investments of a carrying value of €5.956.219 that were classified as available-for-sale under IAS 39. As of 1 January 2018, these equity investments are measured at fair value through profit or loss.

6. No deferred tax asset was recognised on the transition to IFRS 9 on 1 January 2018.

6.4 Impact on transition to IFRS 9 fair value reserve and retained earnings

The impact on transition to IFRS 9 on financial instruments fair value reserve and accumulated losses is as follows:

	Retained earnings	Fair value reserve
	€	€
Balance under IAS 39	5.121.259	8.408.033
Recognition of IFRS 9 ECL	(6.684.268)	337.643
Reclassification of debt instruments from available- for–sale to amortised cost	-	109.308
Restated balance at 1 January 2018	**(1.563.009)**	**8.854.984**

6.5 Reconciliation of impairment allowance balance from IAS 39 to ECL allowance balance of IFRS 9

The following table reconciles the opening provisions under IAS 39 and IAS 37 to the ECL allowances under IFRS 9.

	Provision under IAS 39/ Provision under IAS 37	Re-measurement	ECLs under IFRS 9 at 1 January 2018
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)	€	€	€
Loans and advances to customers	210.093.289	5.810.621	215.903.910
Investments (debt securities) – amortised cost	-	329.290	329.290
	210.093.289	**6.139.911**	**216.233.200**
Available- for- sale (IAS 39)/ Financial assets at FVTOCI (IFRS 9)	€	€	€
Investments (debt securities)	-	337.643	337.643
	-	**337.643**	**337.643**
Provisions for financial guarantees and commitments	€	€	€
Financial guarantees	447.493	212.233	659.726
Other commitments	140	(84)	56
	447.633	**212.149**	**659.782**
Total	**210.540.922**	**6.689.703**	**217.230.625**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

7. NET INTEREST AND OTHER SIMILAR INCOME

	2018 €	2017 €
Interest income		
Interest on loans advances to customers	14.010.033	15.811.616
Interest on impaired loans and advances to customers	8.595.808	10.803.196
Interest on debt securities at amortised cost	3.720.957	2.531.774
Interest on financial assets at fair value through other comprehensive income/ available for sale	-	240.454
Interest on placements	1.210.931	359.969
Other interest income	16	6
Total interest income	**27.537.745**	**29.747.015**
Income similar to interest income		
Interest on debt securities at fair value through profit or loss	219.436	103.794
Interest on swap transactions	1.188.174	1.717.418
Total income similar to interest income	**1.407.610**	**1.821.212**
Interest expense		
Interest on deposits from customers	4.920.364	8.542.361
Interest due to other banks	82.133	60.855
Interest on placements with Central Bank and other banks	1.322.268	1.043.475
Total interest expense	**6.324.765**	**9.646.691**
Net interest income	**22.620.590**	**21.921.536**

8. NET FEE AND COMMISSION INCOME

	2018 €	2017 €
Credit-related fees and commissions	3.882.287	3.162.603
Money transfer fees and commissions	5.551.558	4.739.691
Other banking commissions	176.902	169.987
Other fees	3.922.225	3.152.728
Private banking asset management fees	197.315	272.300
Total fee and commission income	**13.730.287**	**11.497.309**
Fees and commissions from banking operations	2.072.104	1.753.737
Private banking asset management fees	137.654	93.094
Total fee and commission expense	**2.209.758**	**1.846.771**
Net fee and commission income	**11.520.529**	**9.650.538**

9. OTHER INCOME

	2018 €	2017 €
Dividend from equity investments	768.600	760.711
Gain on revaluation of investment properties	8.771	667.360
Profit from disposal of investment properties (Note 23)	83.462	61.261
Other income	73.435	71.004
Total	**934.268**	**1.560.336**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

10. NET GAINS ON FINANCIAL INSTRUMENT TRANSACTIONS

	2018 €	2017 €
Gain from foreign exchange	1.372.157	1.877.673
Gain from disposal of financial assets at fair value through profit or loss	36.646	1.241.473
Gain on disposal of debt securities	7.966.575	942.853
Fair value loss on revaluation of derivative on equity shares (Notes 19 and 20)	(677.705)	-
Fair value gain on revaluation of financial assets at fair value through profit or loss (Note 19 and 20)	677.705	-
Fair value loss on debt securities at fair value through profit or loss	(370.260)	
Gain on revaluation of other investments at fair value through profit or loss	-	707.057
Total	**9.005.118**	**4.769.056**

11. STAFF EXPENSES AND OTHER OPERARTING EXPENSES

Staff expenses

	2018 €	2017 €
Salaries and employer's contributions	16.250.144	15.563.406
Social Insurance contributions	1.036.962	1.103.202
Retirement benefit cost for defined contributions plans	1.210.679	1.194.644
Voluntary redundancy costs	2.053.050	-
Other staff expenses	204.680	173.723
Total	**20.755.515**	**17.944.975**
Average number of employees	*373*	*380*

In January 2018 the Group proceeded with voluntary exit plans for its employees, the cost of which is included in staff costs and amounted to €2.053.050 (16 employees).

Operating expenses

	2018 €	2017 €
Sales and marketing expenses	837.538	1.268.346
Legal expenses and other consultancy fees	3.569.210	2.428.655
Auditors' fees of the financial statements of the Group and its subsidiaries	282.863	126.759
Buildings and other assets' maintenance cost	2.047.997	1.724.932
Operating lease rentals	782.452	737.446
Travelling expenses	440.992	458.943
Printing and stationery	356.021	381.130
Telecommunication expenses	331.392	300.849
Special levy	1.784.114	1.686.908
Other operating expenses	2.276.025	1.911.125
Total	**12.708.604**	**11.025.093**

The "Legal expenses and other consultancy fees" include fees of €121.023 (2017: €220.578) for tax consultancy services and €47.179 (2017: €84.732) for other assurance services charged by the Group's statutory audit firm.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

12. DEPRECIATION AND AMORTISATION

	2018 €	2017 €
Depreciation of property and equipment (Note 22)	733.572	463.781
Amortisation of intangible assets (Note 21)	578.342	288.295
Total	**1.311.914**	**752.076**

13. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

	2018 €	2017 €
Reversal of / (provision for) expected credit loss to cover credit risk on loans and advances to customers	954.157	(1.380.455)
Reversal of expected credit loss to cover credit risk on contractual commitments and guarantees	40.390	399.952
Reversal of expected credit losses on debt securities	275.529	-
Recoveries of loans and advances to customers previously written off	25.702	-
	1.295.778	**(980.503)**

14. INCOME TAX

	2018 €	2017 €
Current Tax	-	9.681
Deferred tax release/ (charge)	(380.424)	1.924.960
	(380.424)	**1.934.641**

None of the items in the consolidated statement of other comprehensive income had an impact on the tax charge for 2018 or 2017.

The Group is subject to income tax on taxable profits at the rate of 12,5% (2017: 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 its expiration date.

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

	2018 €	2017 €
Profit/ (loss) before tax	9.590.261	6.981.465
Tax calculated at the applicable tax rates	1.198.783	872.683
Tax effect of expenses and other losses not deductible for tax purposes	926.689	436.714
Tax effect of income and deductions not subject to tax	(1.374.391)	(1.006.401)
Other tax adjustment	-	(186.568)
(Tax losses utilised)/ tax losses to be carried forward	(751.081)	(106.747)
Total income tax	**-**	**9.681**

14. INCOME TAX (continued)

	Total income tax losses €	Income tax losses for which a deferred tax asset was recognised (Note 27) €	Income tax losses for which no deferred tax asset was recognised €
2018			
Expiring within 5 years	47.030.549	40.270.440	6.760.109
2017			
Expiring within 5 years	60.601.519	34.534.472	26.067.047

Tax losses carried forward	2018 €	2017 €
2018	N/A	(13.570.970)
2019	(27.411.599)	(27.411.599)
2020	(9.561.070)	(9.561.070)
2021	(10.057.880)	(10.057.880)
2022	-	-
2023	-	N/A
	(47.030.549)	**(60.601.519)**

Recognition of deferred tax assets on unutilised income tax losses is supported by Management's business forecasts, taking into account available information and making various assumptions on future growth rate of customer loans, deposits, loan impairment, reduction of NPEs and considering the recoverability of the deferred tax assets within their expiry period.

15. CASH AND BALANCES WITH CENTRAL BANK

	2018 €	2017 €
Cash	12.442.661	9.730.468
Mandatory deposits with the Central Bank of Cyprus	13.737.646	10.096.191
Other balances with the Central Bank of Cyprus	170.998.100	304.996.611
Cheques to be cleared	3.584.623	2.108.869
Total	**200.763.030**	**326.932.139**

The following table presents the Mandatory deposits and other balances with Central Bank of Cyprus categorised according to their credit rating as per Moody's, the international credit rating agency as at 31 December 2018.

	2018 €
Baa3	184.735.746
Total	**184.735.746**

The placements with Central Bank of Cyprus are classified as Stage 1.

15. CASH AND BALANCES WITH CENTRAL BANK (continued)

Cash and cash equivalents comprise:

	2018 €	2017 €
Cash	12.442.661	9.730.468
Other non-obligatory balances	170.998.100	304.996.611
Cheques to be cleared	3.584.623	2.108.869
Current accounts (Note 16)	21.648.328	24.818.508
Placements with other banks (Note 16)	86.024.266	26.810.783
	294.697.978	**368.465.239**

16. PLACEMENTS WITH OTHER BANKS

	2018 €	2017 €
Current accounts	21.648.328	24.818.508
Placements with other banks	86.024.266	26.810.783
Total	**107.672.594**	**51.629.291**

The following table presents the placements with other banks categorised according to their credit rating as per Moody’s, the international credit rating agency, apart from (ii) and (iii) which were categorised as per Standard and Poor’s as at 31 December 2018 and (i) which was categorised as per Capital Intelligence Agency as at 31 December 2017.

	2018 €	2017 €
Credit rating Aaa	-	997.011
Credit rating Aa2 (iii)	641.640	-
Credit rating Aa3	13.719.017	-
Credit rating A1	4.640.569	46.212.423
Credit rating A2	-	531.371
Credit rating A3	1.492.668	-
Credit rating Baa2	50.005.042	30.000
Credit rating Baa3 (ii)	5.344.323	-
Credit rating Ba1	-	418.681
Credit rating BB+ (i)	-	1.408.700
Credit rating B3	999.956	-
Credit rating Caa1	-	999.889
Credit rating Caa2	825.211	-
Unrated	30.004.167	1.031.216
	107.672.594	**51.629.291**

The placements with other Banks are classified as Stage 1.

17. FINANCIAL ASSETS AT AMORTISED COST

	2018 €	2017 €
Securities classified at amortised cost		
Listed	371.749.000	N/A
12 month expected credit losses	(391.404)	N/A
	371.357.596	**N/A**

On 31 December 2018, the debt securities at amortised cost mainly comprised of Cyprus Government bonds with short and long term maturity (€190.180.178), Greek Treasury Bills with maturity of less than 3 months (€37.989.773),

17. FINANCIAL ASSETS AT AMORTISED COST (continued)

European sovereign bonds and corporate bonds with short and long term maturity (€142.285.480) and non-Eurozone sovereign bonds (€6.729.997) with long term maturity.

An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Gross carrying amount as at 1 January 2018	64.910.338	-	-	64.910.338
New assets purchased	575.476.745	-	-	575.476.745
Assets derecognised or matured	(271.572.733)	-	-	(271.572.733)
Accrued interest	3.464.719	-	-	3.464.719
Foreign exchange adjustments	4.419.383	-	-	4.419.383
Interest received	(4.949.452)	-	-	(4.949.452)
	371.749.000	**-**	**-**	**371.749.000**

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
ECL allowance as at 1 January 2018	329.290	-	-	329.290
New assets purchased	157.769	-	-	157.769
Assets derecognised or matured	(95.655)	-	-	(95.655)
ECL allowance as at 31 December 2018	**391.404**	**-**	**-**	**391.404**

The following table presents investments in bond securities categorised according to their rating as per the international credit rating agency, Moody's, as at 31 December 2018:

	2018 €
Investments in bond securities classified at amortised cost:	
Credit rating Aaa	52.016.019
Credit rating Baa3	256.674.958
Credit rating Ba1	6.729.997
Credit rating Ba2	12.754.782
Credit rating B1	37.989.773
Credit rating Caa2	5.192.067
	371.357.596

The following table presents investments in bond securities by country of issuer as at 31 December 2018:

	2018 €
Investments in bond securities classified at amortised cost:	
Cyprus	195.611.827
Greece	50.744.554
Italy	39.422.249
Luxembourg	52.016.018
Portugal	26.832.951
Russian Federation	6.729.997
	371.357.596

The fair value of the investments in bond securities as at 31 December 2018 is €376.752.595.

The following table presents the fair value of the investments in bond securities reclassified to amortised cost from available for sale category as at 1 January 2018 upon the transition to IFRS 9, and the fair value loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified:

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

17. FINANCIAL ASSETS AT AMORTISED COST (continued)

	Fair value 2018 €	Fair value loss 2018 €
Debt securities	24.256.215	813.209

18. LOANS AND ADVANCES TO CUSTOMERS

	2018 €	2017 €
Advances to individuals	219.426.978	206.779.265
Advances to corporate entities:		
Large corporate entities and organisations	146.977.775	121.019.486
Small and medium size enterprises (SMEs)	393.336.358	395.814.063
Advances to customers – gross	**759.741.111**	**723.612.814**
Allowance for ECL/ Impairment losses	**(181.108.367)**	**(210.093.289)**
Advances to customers – net	**578.632.744**	**513.519.525**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances:

	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Gross carrying amount as at 1 January 2018	209.222.474	107.902.378	381.529.623	24.958.339	723.612.814
New assets originated or purchased	156.961.341	-	-	-	156.961.341
Transfer to Stage 1	79.987.922	(78.414.616)	(1.573.306)	-	-
Transfer to Stage 2	(3.659.499)	46.862.023	(43.202.524)	-	-
Transfer to Stage 3	(5.851.564)	(6.048.057)	11.899.621	-	-
Net movement during the period	(57.090.401)	(10.925.199)	(14.981.802)	13.220.106	(69.777.296)
Write-offs	(16.420)	-	(45.402.821)	(5.636.507)	(51.055.748)
At 31 December 2018	**379.553.853**	**59.376.529**	**288.268.791**	**32.541.938**	**759.741.111**

	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
ECL allowance					
1 January 2018	2.889.053	346.489	180.076.308	26.781.439	210.093.289
Impact adopting IFRS 9 at 1 January 2018	896.527	658.584	3.778.471	477.055	5.810.637
Restated balance 1 January 2018	**3.785.580**	**1.005.073**	**183.854.779**	**27.258.494**	**215.903.926**
Interest not recognised in the income statement	-	-	14.425.161	2.061.091	16.486.252
Write-offs			(48.905.971)	(1.966.681)	(50.872.652)
Derecognition	(705.668)	(99.094)	(3.076.176)	(7.869)	(3.888.807)
Transfer to Stage 1	600.431	(461.964)	(138.467)	-	-
Transfer to Stage 2	(128.648)	3.438.611	(3.309.963)	-	-
Transfer to Stage 3	(50.812)	(122.343)	173.155	-	-
Change due to change in credit risk	855.343	(1.581.507)	3.121.445	539.369	2.934.650
Foreign exchange difference and other movement	(17.557)	2.616	634.405	(74.466)	544.998
31 December 2018	**4.338.669**	**2.181.392**	**146.778.368**	**27.809.938**	**181.108.367**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 €	2017 €
Equity shares classified at fair value though other comprehensive income		
Listed (i)	6.633.924	N/A
Unlisted	357.021	N/A
	6.990.945	**N/A**
Securities available for sale		
Listed (i)	N/A	226.567.298
Unlisted	N/A	291.711
	N/A	**226.859.009**

(i) The Group owns 19,91% of the share capital of Atlantic Insurance Company Limited (ATL). The Group'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 at 31 December 2018 valued this investment using alternative valuation methods.

Under the 'Agreement for the Sale and Purchase of Shares in Piraeus Bank (Cyprus) Ltd' "the SPA", between Piraeus Bank S.A., Holding M. Sehnaoui SAL (HMS) and AstroBank Limited which was completed on 28 December 2016, Piraeus Bank S.A. (PBSA) was committed to either find, within 180 days after Completion, a buyer for at least 50% of the Group's shares in ATL (with further terms ensuring that the Group 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 Bank 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 Bank at the time of Completion. The agreement was extended up to 30 June 2019.

It is considered that the agreement contains a derivative which is recognised on the statement of financial position representing the difference between the fair value at each reporting date and the price set by the SPA (Note 32).

The shares relating to 50% of the shares in Atlantic Insurance Company Limited (ATL) owned by the Group (9,955% of the share capital of ATL) which are not the subject of this agreement have been classified as fair value through other comprehensive income and the remaining 50% at FVTPL (Note 20).

After the adoption of IFRS 9 on 1 January 2018 the FVTOCI balance was €156m (€150m debt securities and €6m equity securities as per Note 6,2 above). FVTOCI have decreased from €156m to €7m due to disposal of debt securities during the year.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 €	2017 €
Other investments at fair value through profit or loss (1)	-	12.225.044
Debt securities (5)	5.699.608	-
Trading debt securities (2)	1.851.152	15.810.292
Equity investments (3)	6.633.924	-
Fund participation (4)	8.724.481	-
	22.909.165	**28.035.336**
Movement:		
1 January 2018	28.035.336	11.859.747
Additions	168.070.228	15.810.292
Disposals	(167.193.015)	(341.760)
Transfer from available for sale	6.633.924	-
Transfer to investment property	(12.225.044)	-
Changes in fair value	(412.264)	707.057
	22.909.165	**28.035.336**

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

(1) Other investments classified in 2017 as "Financial assets at fair value through profit or loss" comprise of a financing arrangement relating to properties legally acquired by the Group after an agreement with a customer for the settlement of loans. Based on the transfer agreement, for a period of three years the customer had the right to repurchase any property at the initial price plus any cost to the Group up to the date of the repurchase. During the year ended 31 December 2018 these properties were transferred to investment properties (refer to Note 23) as the period of three years has expired.

(2) Trading debt securities comprise of Cyprus government bonds and corporate bonds acquired principally for the purpose of selling or repurchasing them in the near term.

(3) Equity investments relate to 50% of the shares in Atlantic Insurance Company Limited (ATL) owned by the Group (9,955% of the share capital of ATL) over which Piraeus Bank S.A. is committed to either find a buyer or to make payment to HMS of €4,499,998.44 (refer to note 19).

4) Fund participation relates to an investment of US$10.000.000 in PMOF Special Situations Private Credit Fund. The fund participation is classified at FVTPL as it failed the SPPI test .

5) Debt securities comprise of Spanish corporate bonds that failed to meet the SPPI criteria and, as a result, have been classified at FVTPL.

Investment in ATL

A combination of four different methods (discounted cash flow, book value of equity per share ,dividend valuation and share price) was used for arriving at the overall valuation of the investment in ATL. The weights applied to each valuation reflect Management's assessment of the relevance of each valuation method (Note 36).

An increase by 10% in the discount factor used in the valuation performed would result to a decrease in net equity by €357 thousand.

Risk of fluctuations in property prices

On 31 December 2017, 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 2017, equity would decrease by €611 thousand.

Risk of fluctuations in bond prices

As at 31 December 2018 the trading debt securities are exposed to price fluctuations of bond instruments. A decrease/ increase in the market price of the bonds by 5% as at 31 December 2018 would result in a decrease/ increase in net equity by €93 thousand (2017: €791 thousand).

As at 31 December 2018 the debt securities are exposed to price fluctuations of bond instruments. A decrease/ increase in the market price of the bonds by 5% as at 31 December 2018 would result in a decrease/ increase in net equity by €289 thousand.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

21. INTANGIBLE ASSETS

	Computer Software €	Total €
1 January 2017		
Cost	8.217.895	8.217.895
Accumulated amortisation	(8.028.451)	(8.028.451)
Net book value	**189.444**	**189.444**
Year ended 31 December 2017		
Net book value at beginning of year	189.444	189.444
Additions	1.034.631	1.034.631
Amortisation (Note 12)	(288.295)	(288.295)
	935.780	**935.780**
Net book value at end of year 31 December 2017 / 1 January 2018		
Cost	9.252.526	9.252.526
Accumulated amortisation	(8.316.746)	(8.316.746)
Net book value	**935.780**	**935.780**
Year ended 31 December 2018		
Net book value at beginning of year	935.780	935.780
Additions	767.793	767.793
Amortisation (Note 12)	(578.342)	(578.342)
	1.125.231	**1.125.231**
Net book value at 31 December 2018		
Cost	10.020.319	10.020.319
Accumulated amortisation	(8.895.088)	(8.895.088)
Net book value	**1.125.231**	**1.125.231**

22. PROPERTY AND EQUIPMENT

	Property	Equipment	Total
	€	€	€
1 January 2017			
Cost or valuation	20.625.000	11.236.771	31.861.771
Accumulated depreciation	-	(7.776.020)	(7.776.020)
Net book value	**20.625.000**	**3.460.751**	**24.085.751**
Year ended 31 December 2017			
Net book value at beginning of year	20.625.000	3.460.751	24.085.751
Additions	233.393	326.234	559.627
Write offs/ Disposals – cost	-	(27.450)	(27.450)
Disposals / write offs – accumulated depreciation	-	26.946	26.946
Depreciation (Note 12)	(137.392)	(326.389)	(463.781)
Property revaluation – loss	(233.393)	-	(233.393)
Property revaluation – accumulated depreciation	137.392	-	137.392
Net book value at end of year	**20.625.000**	**3.460.092**	**24.085.092**
31 December 2017 / 1 January 2018			
Cost or valuation	20.625.000	11.535.555	32.160.555
Accumulated depreciation	-	(8.075.463)	(8.075.463)
Net book value	**20.625.000**	**3.460.092**	**24.085.092**
Year ended 31 December 2018			
Net book value at beginning of year	20.625.000	3.460.092	24.085.092
Additions	461.413	1.832.637	2.294.050
Write offs/ Disposals – cost	-	(2.225.605)	(2.225.605)
Disposals / write offs – accumulated depreciation	-	1.378.212	1.378.212
Depreciation (Note 12)	(139.340)	(594.232)	(733.572)
Property revaluation – loss	(449.513)	-	(449.513)
Property revaluation – accumulated depreciation	139.280	-	139.280
Transfer – cost	(11.900)	11.900	-
Transfer – accumulated depreciation	60	(60)	-
Net book value at end of year	**20.625.000**	**3.862.944**	**24.487.944**
31 December 2018			
Cost or valuation	20.625.000	11.154.487	31.779.487
Accumulated depreciation	-	(7.291.543)	(7.291.543)
Net book value	**20.625.000**	**3.862.944**	**24.487.944**

Property includes land of € 9.359 thousand (2017: €9.209 thousand) for which no depreciation is charged. The latest property revaluation was performed in December 2018.

The policy of the Group is to carry out valuations of its property every year. As a result of the economic conditions present in Cyprus and their impact on the real estate market, the Group performed revaluations in December 2018 and in January 2018. As a result, an impairment loss of €310 thousand (2017: €96 thousand) was recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

22. PROPERTY AND EQUIPMENT (continued)

Fair value of land and buildings

An independent valuation of the Group's land and buildings was performed by two independent valuers to determine the fair value of the land and buildings as at 31 December 2018 and 2017.The loss on revaluation was charged to the consolidated income statement in accordance with the relevant accounting policy. The following table analyses the property 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 prices 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 2018 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**

There were no transfers between levels during the year.

	Fair value measurements at 31 December 2017 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**

There were no transfers between levels during the year.

	Office buildings Nicosia	
	2018	2017
	€	€
Opening balance	20.625.000	20.625.000
Additions	461.413	233.393
Transfers to equipment	(11.900)	-
Transfer of accumulated depreciation	60	-
Depreciation charge	(139.340)	(137.392)
Revaluation losses recognised in consolidated income statement	(449.513)	-
Revaluation of property – accumulated depreciation	139.280	(96.001)
Closing balance	**20.625.000**	**20.625.000**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

22. PROPERTY AND EQUIPMENT (continued)

During the years 2018 and 2017, there have been a limited number of similar sales in the local market and as a result, the Group 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 Group

On an annual basis, the Group engages external and qualified valuers to determine the fair value of land and buildings. As at 31 December 2018 and 2017, the fair value of the land and buildings has been determined as the average value based on the valuations.

The Level 3 valuations for land and buildings have been performed using the average of a sales comparison method and the replacement cost method. 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 2018 €	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 2017 €	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

23. INVESTMENT PROPERTIES

	2018 €	2017 €
1 January	64.730.039	31.527.490
Additions	20.142.239	33.493.949
Disposals	(9.025.125)	(958.760)
Changes in fair value	8.771	667.360
Other movements	(28.424)	-
Closing balance	**75.827.500**	**64.730.039**

	2018 €	2017 €
Fields	25.427.000	20.171.000
Residential flats	510.000	-
Residential houses	7.265.000	6.088.000
Residential land	12.153.000	1.079.000
Shops	1.122.000	581.000
Commercial building with shops (Mall)	12.532.500	12.387.300
Commercial buildings	4.568.000	12.173.309
Hotel	12.250.000	12.250.000
	75.827.500	**64.730.039**

During the year ended 31 December 2018, the Group obtained property of a total amount of €7.917 thousand (31 December 2017: €33.494 thousand) after agreements with customers for settlement of their loans. Investment property comprises of land and buildings in different areas in Cyprus.

During the year ended 31 December 2018, the Group disposed property of a total amount of €9.025.125 at a profit of €83.462 (Note 9).

Fair value of investment property

Valuation of the property was performed by the Group by external qualified valuers to determine the fair value as at 31 December 2018. The revaluation loss /gain was recognised in the consolidated income statement. 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 prices 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 hierarchy at 31 December 2018 using:		
	(Level 1) €	(Level 2) €	(Level 3) €
Fair value measurements			
Investment property	-	-	75.827.500

There were no transfers between levels during the year.

	Fair value hierarchy at 31 December 2017 using:		
	(Level 1) €	(Level 2) €	(Level 3) €
Fair value measurements			
Investment property	-	-	64.730.039

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

23. INVESTMENT PROPERTIES (continued)

Fair value of investment property (continued)

There were no transfers between levels during the year.

During the year ended 31 December 2018 and during the year ended 31 December 2017, there have been a limited number of similar sales in the local market and as a result, the Group 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 Group arises from possible negative fluctuations in the current property prices.

On 31 December 2018, 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 2018, the equity would decrease/ increase by €9.952 thousand (31 December 2017: €8.496 thousand).

Valuation processes of the Group

At each reporting date the group engages either external or internal qualified valuers to determine the fair value of the investment properties.

The Level 3 valuations of investment properties have been performed using the average of a sales comparison method and the replacement cost method. 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.

The majority of investment properties of the Group are not utilised at their highest and best use, as the Group has acquired these assets in debt satisfaction and is in the process of initiating an orderly disposal of these properties.

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

31 December 2018

Description	Fair value at 31 December 2018 €	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	15.157.000	357-10.000	€25-€1.450	41-2.185	€9 - €2.900
Land with buildings Larnaca	10.253.000	422-26.069	€6 - €535	178-1.292	€327 - €3.213
Land with buildings Ayia Napa	14.215.000	4.858-20.722	€33- €350	4.035	€1.238
Land with buildings Limassol	10.938.000	697-107.025	€1- €430	107-50.837	€14-€2.009
Land with buildings Paphos	25.264.500	512-52.844	€7 - €595	28-23.100	€265 - €2.900

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

23. INVESTMENT PROPERTIES (continued)

31 December 2017

Description	Fair value at 31 December 2017 €	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	16.695.000	357- 16.324	€25 - €773	150 – 9.100	€9 - €2.061
Land with buildings Larnaca	10.284.000	35- 26.069	€12 - €1.343	143-1.292	€324 - €3.750
Land with buildings Ayia Napa	12.250.000	20.722	€350	4.035	€1.238
Land with buildings Limassol	9.130.309	960- 100.001	€5 - €775	1.566-6.511	€164- €1.154
Land with buildings Paphos	16.370.730	103- 44.500	€7 - €2.500	111-15.700	€232 - €2.900

Sensitivity analysis

All property valuations of the Group 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.

24. OTHER ASSETS

	2018 €	2017 €
Prepaid expenses	1.019.937	876.459
Other receivables	757.655	1.789.962
	1.777.592	**2.666.421**

An analysis of changes in the gross carrying amount of the financial asset included in other receivables is presented in the table below:

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Other receivables	757.655	-	-	757.655

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Other receivables	-	-	-	-

25. DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

	2018 €	2017 €
Analysis by geographical sector		
Cyprus	7.397.289	2.225.710
Greece	209.780	254.781
Other countries	7.533.133	183
	15.140.202	**2.480.674**

26. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

by type of deposit

	2018 €	2017 €
Demand	652.819.334	545.709.642
Savings	114.599.226	63.881.993
Term	453.006.932	493.608.362
Total	**1.220.425.492**	**1.103.199.997**

by currency

	2018 €	2017 €
Euro	1.031.033.450	919.717.914
US Dollar	149.242.413	147.133.678
British Pound	28.766.700	29.004.903
Swiss Franc	625.250	199.475
Other	10.757.679	7.144.027
Total	**1.220.425.492**	**1.103.199.997**

by line of business

	2018 €	2017 €
Retail	657.869.893	560.881.327
Corporate	86.528.806	93.839.336
International banking services	431.088.796	404.044.252
Private banking	43.582.416	43.970.511
Recoveries banking unit	1.355.581	464.571
Total	**1.220.425.492**	**1.103.199.997**

by geographical area

	2018 €	2017 €
Cyprus	953.379.080	804.358.516
Greece	102.188.327	109.852.843
British Virgin Islands	24.816.830	43.976.790
Russia	13.837.578	12.338.732
Other countries	126.203.677	132.673.116
Total	**1.220.425.492**	**1.103.199.997**

Deposits by geographical area are based on the originator country of deposits.

27. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are calculated on all temporary differences using the applicable tax rates (Note 14). 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:

27. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets

	2018 €	2017 €
Balance at 1 January	5.716.155	7.641.115
Change of future utilisation of tax losses	716.996	(1.711.306)
Change relating to provisions on stage 1 and stage 2 loans/ Change relating to collective provisions	(575.925)	(213.654)
Balance at 31 December	**5.857.226**	**5.716.155**

Deferred tax liabilities

	2018 €	2017 €
Balance at 1 January	887.501	883.393
Adjustment – property revaluation	(95.627)	4.108
Adjustment – temporary difference on leasehold improvements	(156.079)	-
Balance at 31 December	**635.795**	**887.501**

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

	2018 €	2017 €
Deferred tax assets		
Deferred tax relating to future utilisation of tax losses	5.033.805	4.316.809
Deferred tax relating to provisions on stage 1 and stage 2 loans Deferred tax relating to collective provisions	823.421	1.399.346
	5.857.226	**5.716.155**
Deferred tax liabilities		
Property revaluation (1)	635.795	731.422
Difference between depreciation and capital allowances	-	156.079
	635.795	**887.501**

(1) The property was valued at fair value at the time of acquisition of the Arab Bank Plc Cyprus branch and was last revalued on December 2018. It comprises of the Group's headquarters on 1 Spyrou Kyprianou Street, Nicosia.
(2) The Bank has recognised a deferred tax asset on the provisions on stage 1 and stage 2 loans. The deferred tax asset recognised relates to the effect of expected credit losses which are expected to materialize in future periods.

The deferred tax (charge) /credit in the consolidated income statement relates to temporary differences as follows:

	2018 €	2017 €
Tax losses	716.996	(1.711.306)
Collective impairment of loans and advances	(575.925)	(213.654)
Total (Note 14)	**141.071**	**(1.924.960)**

28. OTHER LIABILITIES

	2018 €	2017 €
Expenses payable	2.683.968	1.842.453
Outstanding customers banking transactions	21.145.541	17.047.829
Provisions for financial guarantees and commitments	619.393	447.633
Other liabilities	24.105.863	2.475.883
Total	**48.554.765**	**21.813.798**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

28. OTHER LIABILITIES (continued)

Other liabilities included amount of €23,5m which was used for share capital increase in January 2019.

An analysis of changes in the off balance sheet exposures (Note 31) and the corresponding ECLs are as follows:

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Outstanding exposure as at 1 January 2018	20.017.684	2.318.092	817.283	23.153.059
New exposures	11.889.984	-	855	11.890.839
Exposures derecognised or matured (excluding write-offs)	(3.968.785)	(515.760)	(134.428)	(4.618.973)
Transfers to Stage 1	2.242.042	(1.802.332)	(439.710)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(6.150.099)	-	6.150.099	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**24.030.826**	**-**	**6.394.099**	**30.424.925**

	Stage 1 €	Stage 2 €	Stage 3 €	Total €
ECLs as at 1 January 2018	170.072	187.251	302.460	659.783
New exposures	44.514	-	100	44.614
Exposures derecognised or matured (excluding write-offs)	(22.405)	(71.451)	(88.652)	(182.508)
Transfers to Stage 1	122.313	(115.800)	(6.513)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(50.266)	-	50.266	-
Impact on year end ECL of exposures transferred between stages during the year	151.343	-	(53.839)	97.504
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**415.571**	**-**	**203.822**	**619.393**

29. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share Capital €	Share Premium €	Total €
1 January 2017	14.113.487	14.113.487	187.840.247	201.953.734
Share premium reduction (1)	-	-	(99.285.543)	(99.285.543)
31 December 2017	**14.113.487**	**14.113.487**	**88.554.704**	**102.668.191**
1 January 2018	14.113.487	14.113.487	88.554.704	102.668.191
31 December 2018	**14.113.487**	**14.113.487**	**88.554.704**	**102.668.191**

The share premium is not available for distribution to the shareholders in the form of dividend.

The issued share capital is fully paid. The authorised share capital of the Bank as at 31 December 2018 was €14.113.487.

(1) On 2 November 2017, the Board of Directors unanimously approved the reduction of the share premium of the Bank by €99.285.543 (representing the accumulated losses as per the stand alone financial statements of the Bank as at 31 December 2016) for the purpose of writing off the accumulated losses in an equivalent amount.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

30. RETAINED EARNINGS AND OTHER RESERVES

	2018 €	2017 €
Retained earnings		
Balance at 1 January	5.121.259	(99.211.108)
IFRS 9 impact on 1 January 2018	(6.684.268)	
Share premium reduction against accumulated losses (Note 29)	-	99.285.543
Profit for the year attributable to the Group's shareholders	9.970.685	5.046.824
Balance at 31 December	**8.407.676**	**5.121.259**
Fair value reserve		
Balance at 1 January	8.408.033	315.057
Revaluation for the year	252.406	8.368.905
Transfer of realised gains on disposal of FVOCI/ available for sale financial assets	(7.943.605)	(275.929)
Balance 31 December	**716.834**	**8.408.033**

31. 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 Group'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.

	2018 €	2017 €
Credit guarantees	293.078	79.300
Letters of guarantee	30.131.846	23.073.758
Total	**30.424.924**	**23.153.058**

As at 31 December 2018 letters of guarantee of €5.231.165 (31 December 2017: €12.364.398) 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 €82.431.443 (31 December 2017: €58.116.359).

Operating lease commitments

The Group 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:

	2018 €	2017 €
Up to one year	263.541	253.077
From one to five years	498.185	12.625
	761.726	**265.702**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

31. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Legal proceedings

As at 31 December 2018 and 31 December 2017 there were pending litigations against the Group in connection with its activities. Based on legal advice, the Board of Directors believes that there is adequate defense against all claims and that the said claims are considered unlikely to have any material adverse impact on the financial position of the Group.

Pending litigation and claims

	Legal case possibility
Letters of guarantee	
• Case relating to a claim of €141.095 for a letter of guarantee issued by the Group in favor of another bank in Cyprus guaranteeing the issuance of title deeds, as a bridging security, for facilities granted to the beneficiary bank's customer. Title deeds were indeed issued and both the beneficiary bank and their borrower were repeatedly informed in writing about this and they were called upon to appear in the Land Registry to accept transfer and register a mortgage in favor of the beneficiary bank. Nevertheless both failed to do so and, instead the beneficiary chose to make a claim on the letter of guarantee.	**Remote**
• Case relating to a claim of €221.000 concerning a successful opposition by the Group to an Interim Order which was issued to freeze the payment of a letter of guarantee in favor of the Group. A separate action was filed by the Group against the principal debtors and guarantor for the sums owed by the debtors and by guarantor since the apartment sold had no title. The Plaintiffs filed the present action in order to prevent the guarantor bank from paying the letter of guarantee securing the issuance of title deeds which was given as security to the Bank for facilities granted to the customers/ buyers.	**Remote**
Employment litigation	
• The plaintiff's employment was terminated by the Group following disciplinary proceedings against the plaintiff for wrongly disclosing confidential bank documents to a third party. The employee appealed unsuccessfully to the Appeals Committee against the judgment of the Disciplinary Committee and the Appeals Committee upheld the judgment of the Disciplinary Committee .	**Remote**
• The plaintiff claims damages for alleged unfair dismissal. There were two disciplinary proceedings at different times against the plaintiffs because the plaintiff was engaging in personal businesses during his working hours at the Bank and for divulging confidential information to third parties and or for abusing his position at the Bank. The plaintiff admitted the charges and the Disciplinary Committee decided to dismiss him.	**Remote**
Disposal of underlying security of facilities granted by the Group	
Case by Group's customers and guarantors against the Group and certain senior officers and a Receiver and Manager appointed by the Group, claiming damages for alleged illegal disposal of a hotel held as security for facilities granted by the Group. The Group strongly defends the case denying these allegations.	**Remote**

31. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Pending litigation and claims (continued)

	Legal case possibility
Set off of receivables with deposits Case concerns a set off of a receivable against a deposit. The plaintiffs allege that the Defendants wrongly proceeded to a set off against plaintiffs' pledged deposit and claim the same amount back. The Group's position is that the set off was lawful and properly effected. The case was adjourned many times.	**Remote**
Claim against lending facilities • Case concerns a debtor of the Group who claims a court order ordering that the credit facility or security agreements that were signed with the Group regarding his credit facilities are illegal and/or void. To this end the Plaintiff claims for legal damages (general and special). The Group intends to contest such proceedings.	**Remote**
• Case concerns a borrower who obtained loans in Swiss Francs. The allegation in this case is that the Group exercised fraudulent actions/duress during the conclusion of the loan agreements and that the agreements in question contain abusive terms. The Group denies all of the Plaintiffs' allegations and through its counterclaim demands the repayment of the full amounts owed towards the Group.	**Remote**
Additional charges The claimant is a debtor of the Group who claims inter alia that the legal agreements signed between the Bank and the Company are void and/or illegal and/or that they have been charged with illegal charges. It is expected that the Group will file a counterclaim and the success of the case will depend on the evidence that will be presented in court.	**Remote**
Transfer of funds • Claim of €181.795 against the Group for negligence and/or breach of fiduciary duty and/or breach of its statutory duties. In particular the Plaintiff has remitted funds in one of the Bank's customer's accounts. The remitted funds were transferred by the plaintiff via the Group's internet banking to a third party. The plaintiff requests the funds to be returned due to alleged fraud. It is the position of the Group that it has not acted negligently or in breach of its statutory duties.	**Remote**
• Claim against the Group which seeks the restitution of an amount held in Plaintiff's account with the Bank which allegedly was released from the account without the Bank exercising due care and diligence as trustee of the customer's money.	**Remote**

32. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group 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.

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 Group'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
	€	€	€
31 December 2018			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	4.096.548	56.050	126.847
Currency swaps	51.148.708	7.123	3.346
		63.173	130.193
Derivative on equity shares (1)		-	677.705
		-	677.705
Total derivative financial instruments		**63.173**	**807.898**
31 December 2017			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	7.332.689	13.170	469.451
Currency swaps	80.708.705	19.097	659
Total derivative financial instruments		**32.267**	**470.110**

(1) It is considered that the agreement between HMS and PBSA (refer to Note 19) contains a derivative which is recognised on the statement of financial position indicating the difference between the fair value at each reporting date and the price set by the SPA.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

33. GROUP COMPANIES

The subsidiary companies included in the consolidated financial statements of the Group, their country of incorporation, their activities and the percentage of share capital held by the Bank as at 31 December 2018 and 31 December 2017 are:

	Country of incorporation	Activities	Percentage holding % 2018	Percentage holding % 2017
EMF Investors Limited	Cyprus	Dormant	100%	100%
AstroBank Insurance Agency Limited	Cyprus	Insurance Broker	100%	100%
Adflikton Investments Limited	Cyprus	Investment property owner	100%	100%
Costpleo Investments Limited	Cyprus	Investment property owner	100%	100%
Cutsofiar Enterprises Limited	Cyprus	Investment property owner	100%	100%
Gravieron Company Limited	Cyprus	Investment property owner	100%	100%
Rockory Enterprises Limited	Cyprus	Investment property owner	100%	100%
Bakkens Limited	Cyprus	Investment property owner	100%	100%
Achardz Limited	Cyprus	Investment property owner	-	100%
Xepa Limited	Cyprus	Investment property owner	100%	100%
Kaihur Investment Limited	Cyprus	Investment property owner	100%	100%
Pertanam Enterprises Limited	Cyprus	Investment property owner	100%	100%
Alarconaco Enterprises Limited	Cyprus	Investment property owner	100%	100%
Langesee Limited	Cyprus	Investment property owner	100%	100%
Olemo Limited	Cyprus	Investment property owner	100%	-
Todero Limited	Cyprus	Investment property owner	100%	-
Castlehawk Limited	Cyprus	Investment property owner	100%	-
Dacibel Limited	Cyprus	Investment property owner	100%	-
Dicoder Limited	Cyprus	Investment property owner	100%	-
Amatorco Limited	Cyprus	Investment property owner	100%	-
Nexelleuce Limited	Cyprus	Investment property owner	100%	-

34. MANAGEMENT OF FINANCIAL RISKS

Like any other banking group, the Group is exposed to a variety of risks from the financial instrument it holds. 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.

Credit risk

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

The Group'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 loans and advances is determined using the method of expected credit losses model as required by the relevant standards (refer to Note 2).

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 Group'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 Group 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 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 Group 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 Group 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.

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Internal rating systems (continued)

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 Group, 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.

Maximum exposure to credit risk before collaterals and other credit improvements

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 Group, with the aim to develop the appropriate strategies for avoiding undertaking increased risks.

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

	Maximum exposure	
	2018	**2017**
	€	**€**
Credit risk exposure on balance sheet items:		
Balances with Central Banks	184.735.746	315.092.802
Placements with other banks	107.672.594	51.629.291
Loans and advances to customers	578.632.744	513.519.525
Available for sale financial assets	-	214.654.860
Debt securities at amortised cost	371.357.596	-
Debt securities at fair value through profit or loss	7.550.760	15.810.292
Other financial assets at fair value through profit or loss	8.724.481	-
Derivative financial instruments	63.173	32.267
Other assets	757.655	1.789.962
	1.259.494.749	**1.112.528.999**
Credit risk exposure from off balance sheet items:		
Credit guarantees	293.078	79.300
Letters of guarantee	30.131.846	23.073.758
Unutilised credit limits	82.431.443	58.116.359
	112.856.367	**81.269.417**
Total on and off balance sheet items	**1.372.351.116**	**1.193.798.416**

According to the above table, 21% (31 December 2017: 31%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 42% (31 December 2017: 43%) from loans and advances.

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Maximum exposure to credit risk before collaterals and other credit improvements (continued)

to customers and 28% (31 December 2017: 18%) is derived from investment in bonds classified at amortised cost and at fair value through profit or loss.

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

The Group's Management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

The Group's maximum exposure to credit risk is analysed by geographical area as follows:

	Maximum exposure	
	2018	**2017**
	€	**€**
On balance sheet		
Cyprus	927.625.844	961.138.748
Greece	64.751.873	24.161.156
Other countries	267.117.032	127.229.095
	1.259.494.749	**1.112.528.999**
Off balance sheet		
Cyprus	102.147.693	79.967.867
Greece	1.557.378	259.514
Other countries	9.151.296	1.042.036
	112.856.367	**81.269.417**
Total on and off balance sheet		
Cyprus	1.029.773.537	1.041.106.615
Greece	66.309.251	24.420.670
Other countries	276.268.328	128.271.131
	1.372.351.116	**1.193.798.416**

Geographical analysis is based on the counterparty country of operation.

Loans and advances and collateral and other credit enhancements

The table below presents the maximum on balance sheet exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held.

The fair value of the real estate collateral presented in the table below is capped to the carrying value of the loans and advances to customers.

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Loans and advances and collateral and other credit enhancements (continued)

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held.

The fair value of the real estate collateral presented in the tables below for the loans and receivables is the open market value after indexation capped at the carrying value of the loans and advances to customers.

	Exposure to credit risk	Cash	Letters of credit/ guarantee	Other	Property	Surplus collateral	Total collateral	Net exposure to credit risk
	€	€	€	€	€	€	€	€
Cash and balances with Central Banks	**200.763.030**	-	-	-	-	-	-	200.763.030
Placements with other banks	**107.672.594**	-	-	-	-	-	-	107.672.594
Derivative financial instruments	**63.173**	-	-	-	-	-	-	63.173
Financial assets at fair value through profit or loss	**22.909.165**	-	-	-	-	-	-	22.909.165
Financial assets at fair value through other comprehensive income	**6.990.945**	-	-	-	-	-	-	6.990.945
Financial assets at amortised cost	**371.357.596**	-	-	-	-	-	-	371.357.596
Loans and advances to customers	**578.632.744**	31.760.166	73.150.511	14.837.886	355.900.701	(176.640.571)	475.649.264	102.983.480
Other assets	**757.655**	-	-	-	-	-	-	757.655
Total on balance sheet	**1.289.146.902**	**31.760.166**	**73.150.511**	**14.837.886**	**355.900.701**	**(176.640.571)**	**475.649.264**	**813.497.638**
Credit guarantees	**293.078**	**-**	**-**	**-**	**-**	**-**	**-**	293.078
Letters of guarantee	**30.131.846**	1.075.550	-	53.239	2.991.478	11.159.587	4.120.267	26.011.579
Total off balance sheet	**30.424.924**	**1.075.550**	-	**53.239**	**2.991.478**	**11.159.587**	**4.120.267**	**26.304.657**

For ECL calculation purposes the off balance sheet exposures are multiplied with credit conversion factors.

Expected credit loss measurement

The table below discloses the values of the financial assets and off balance sheet instruments by staging before ECL:

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Expected credit loss measurement (continued)

31 December 2018

	Stage1	Stage 2	Stage 3	POCI	Total
	€	€	€	€	€
Balances with Central Banks	200.763.030	-	-	-	200.763.030
Placements with other Banks	107.672.594	-	-	-	107.672.594
Financial assets at amortised cost	371.357.596	-	-	-	371.357.596
Loans and advances to customers	379.553.852	59.376.529	288.268.791	32.541.939	759.741.111
Other assets	757.655	-	-	-	757.655
Total financial assets in scope of ECL requirements	**1.060.104.727**	**59.376.529**	**288.268.791**	**32.541.939**	**1.440.291.986**
Credit guarantees	293.078	-	-	-	293.078
Letters of guarantee	23.737.747	-	6.394.099	-	30.131.846
Unutilised limits	81.013.205	392.329	1.025.909	-	82.431.443
Total off-balance sheet instruments in scope of ECL requirements	**105.044.030**	**392.329**	**7.420.008**	**-**	**112.856.367**

The table below discloses the ECL allowance of the financial assets and off balance sheet instruments by Staging**:**

	Stage1	Stage 2	Stage 3	POCI	Total
	€	€	€	€	€
Balances with Central Banks	-	-	-	-	-
Placements with other Banks	-	-	-	-	-
Financial assets at amortised cost	391.404	-	-	-	391.404
Loans and advances to customers	4.338.669	2.181.392	146.778.368	27.809.938	181.108.367
Other assets	-	-	-	-	-
Total financial assets in scope of ECL requirements	**4.730.073**	**2.181.392**	**146.778.368**	**27.809.938**	**181.499.771**
Credit guarantees	390	-	-	-	390
Letters of guarantee	415.182	-	203.821	-	619.003
Total off-balance sheet instruments in scope of ECL requirements	**415.572**	**-**	**203.821**	**-**	**619.393**

ECL allowance on unutilised limits is included in ECL allowance of loans and advances to customers.

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Currency concentration of loans and advances to customers

	31 December 2018	31 December 2017
	€	€
Euro	701.867.144	670.609.253
US Dollar	33.529.432	21.688.287
British Pound	2.859.959	3.525.227
Swiss Franc	21.432.874	27.735.526
Other currencies	51.702	54.521
	759.741.111	**723.612.814**

Geographical analysis

The following table presents the credit quality of the Group's loans and advances to customers at amortised cost by geographical concentration as per country of origination:

31 December 2018	Cyprus	Greece	Other countries	Total
	€	€	€	€
Stage 1	347.315.676	13.269.370	18.968.806	379.553.852
Stage 2	57.552.219	5.680	1.818.630	59.376.529
Stage 3	285.773.650	17.418	2.477.723	288.268.791
POCI	32.541.939	-	-	32.541.939
	723.183.484	**13.292.468**	**23.265.159**	**759.741.111**

The following table presents the carrying amount of the Group'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
	€	€	€	€
31 December 2018				
Credit risk exposure from on balance sheet assets:				
Deposits with the Central Bank	184.735.746	-	-	184.735.746
Placements with other banks	999.956	767.215	105.905.423	107.672.594
Loans and Advances to customers	543.663.057	13.206.962	21.762.725	578.632.744
Financial assets at amortised cost	195.611.827	50.744.554	125.001.215	371.357.596
Financial assets at FVTPL	1.851.152	-	14.424.089	16.275.241
Derivative financial instruments	6.451	33.142	23.580	63.173
Other Assets	757.655	-	-	757.655
Total on balance sheet assets	**927.625.844**	**64.751.873**	**267.117.032**	**1.259.494.749**
Credit risk exposure from off balance sheet assets:				
Credit guarantees	293.078	-	-	293.078
Letters of guarantee	29.690.793	30.165	410.888	30.131.846
Unutilised credit limits	72.163.822	1.527.213	8.740.408	82.431.443
Total off balance sheet assets	**102.147.693**	**1.557.378**	**9.151.296**	**112.856.367**
Total on and off balance sheet assets as at 31 December 2018	**1.029.773.537**	**66.309.251**	**276.268.328**	**1.372.351.116**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Geographical analysis (continued)

	Cyprus	Greece	Other countries	Total
	€	€	€	€
31 December 2017				
Credit risk exposure from on balance sheet assets:				
Deposits with the Central Bank	315.092.802	-	-	315.092.802
Placements with other banks	999.887	973.619	49.655.785	51.629.291
Loans and advances to customers	489.830.673	3.205.005	20.483.847	513.519.525
Available for sale financial assets	137.615.132	19.950.265	57.089.463	214.654.860
Financial assets at fair value through profit or loss	15.810.292	-	-	15.810.292
Derivative financial instruments	-	32.267	-	32.267
Other Assets	2.666.421	-	-	2.666.421
	962.015.207	**24.161.156**	**127.229.095**	**1.113.405.458**
Credit risk exposure from off balance sheet assets:				
Credit guarantees	79.300	-	-	79.300
Letters of guarantee	22.826.845	52.736	194.177	23.073.758
Unutilised credit limits	57.061.722	206.778	847.859	58.116.359
Total off balance sheet assets	**79.967.867**	**259.514**	**1.042.036**	**81.269.417**
Total on and off balance sheet assets as at 31 December 2017	**1.041.983.074**	**24.420.670**	**128.271.131**	**1.194.674.875**

Business sector analysis

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

	Industrial	Tourism	Commerce	Real estate and Construction	Financial Institutions	Governments	Other sectors	Total
	€	€	€	€	€	€	€	€
31 December 2018								
Deposits with Central Bank	-	-	-	-	184.735.746	-	-	184.735.746
Placements with other banks	-	-	-	-	107.672.594	-	-	107.672.594
Advances:								
Advances to individuals	30.809	-	28.648	16.555	-	-	143.114.634	143.190.646
Advances to businesses:								
Large entities & organisations	10.534.702	13.892.638	29.234.163	7.683.908	14.310.659	-	68.617.162	144.273.232
Small and medium size enterprises	13.009.090	17.542.507	42.704.451	122.655.642	41.608.232	3.874.968	49.773.976	291.168.866
Financial assets at amortised cost	-	-	-	-	136.218.067	235.139.529	-	371.357.596
Financial assets at fair value through profit or loss	-	-	-	-	5.968.641	1.582.119	8.724.481	16.275.241
Derivative financial instruments	-	-	-	-	63.173	-	-	63.173
Other assets	-	-	-	-	-	-	757.655	757.655
	23.574.601	31.435.145	71.967.262	130.356.105	490.577.112	240.596.616	270.987.908	1.259.494.749
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	-	-	-	293.078	-	-	-	293.078
Letters of guarantee	1.133.802	128.156	227.315	9.166.603	2.051.262	-	17.424.708	30.131.846
Unutilised credit limits	863.814	124.367	6.115.874	13.015.855	3.107.353	358.194	58.845.986	82.431.443
	1.997.616	252.523	6.343.189	22.475.536	5.158.615	358.194	76.270.694	112.856.367
Total on and off balance sheet assets 31 December 2018	**25.572.217**	**31.687.668**	**78.310.451**	**152.831.641**	**495.975.308**	**240.715.229**	**347.258.602**	**1.372.351.116**

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Business sector analysis (continued)

	Industrial €	Tourism €	Commerce €	Real estate and Construction €	Financial Institutions €	Governments €	Other sectors €	Total €
31 December 2017								
Deposits with Central Bank	-	-	-	-	315.092.802	-	-	315.092.802
Placements with other banks	-	-	-	-	51.629.291	-	-	51.629.291
Advances :								
Advances to individuals	29.911	429	22.829	20.299	-	-	130.903.392	130.976.860
Advances to businesses:								
Large entities & organisations	6.582.246	-	21.394.763	8.213.498	15.320.916	-	68.605.690	120.117.113
Small and medium size enterprises	17.017.440	11.178.329	45.756.378	119.673.333	11.857.909	4.499.855	52.442.308	262.425.552
Available for sale financial assets	-	-	-	-	-	214.654.860	-	214.654.860
Financial assets at fair value through profit or loss	-	-	-	-	-	15.810.292	-	15.810.292
Derivative financial instruments	-	-	--	-	32.267	-	-	32.267
Other assets	-	-	-	-	-	-	2.666.421	2.666.421
	23.629.597	11.178.758	67.173.970	127.907.130	393.933.185	234.965.007	254.617.811	1.113.405.458
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	-	-	79.300	-	-	-	-	79.300
Letters of guarantee	1.306.475	10.615	1.480.476	13.684.242	1.432.690	-	5.159.260	23.073.758
Unutilised credit limits	12.209.338	3.320.888	10.283.877	3.146.138	471.187	1.717.208	26.967.723	58.116.359
	13.515.813	3.331.503	11.843.653	16.830.380	1.903.877	1.717.208	32.126.983	81.269.417
Total on and off balance sheet assets 31 December 2017	**37.145.410**	**14.510.261**	**79.017.623**	**144.737.510**	**395.837.062**	**236.682.215**	**286.744.794**	**1.194.674.875**

Credit quality of loans and advances to customers

The following tables present the credit quality of the Group’s loans and advances to customers at amortised cost by business line concentration.

31 December 2018	**Stage 1** **€**	**Stage 2** **€**	**Stage 3** **€**	**POCI** **€**	**Total** **€**
Corporate	292.755.430	13.763.862	13.791.646	106.084	320.417.022
Retail	85.178.504	12.360.882	82.297.926	4.193.385	184.030.697
International Banking services	1.503.108	6.087	996.029	-	2.505.224
Recoveries Banking Unit	115.927	33.245.698	190.764.092	28.242.470	252.368.187
Wealth Management	883	-	419.098	-	419.981
	379.553.852	**59.376.529**	**288.268.791**	**32.541.939**	**759.741.111**

	Stage1 **€**	**Stage 2** **€**	**Stage 3** **€**	**POCI** **€**	**Total** **€**
Days past due					
No days past due	327.066.440	49.427.531	41.376.277	1.983.102	419.853.350
1 to 29 days past-due	52.487.412	4.747.240	12.026.855	1.969.458	71.230.966
30 to 59 days past-due	-	4.284.310	2.009.413	24.732	6.318.456
60-89 days past-due		917.448	1.355.617	-	2.273.063
More than 90 days past-due	-	-	231.500.629	28.564.647	260.065.276
Total	**379.553.852**	**59.376.529**	**288.268.791**	**32.541.939**	**759.741.111**

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

	31 December 2017 €
Neither past-due nor impaired	276.796.344
Past-due but not impaired	149.908.888
Impaired	296.907.582
Gross loans and advances	**723.612.814**

Loans and advances to customers that are past due but not impaired and impaired

	31 December 2017 Impaired €	31 December 2017 Past due but not impaired €
No arrears	7.967.942	-
-1- 30 days past due	17.887.395	114.038.487
-31-60 days past due	600.235	15.445.633
-61-90 days past due	6.686.890	3.227.700
-More than 90 days past due	263.765.120	17.197.068
Gross loans and advances	**296.907.582**	**149.908.888**

Write offs

Write offs subject to enforcement activity
The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is €31,2m.

Debt write-offs
The contractual amount on financial assets that were written off during the reporting period is €20m.

Collateral and other credit enhancements obtained

As at 31 December 2018 the Group held investment properties acquired in satisfaction of debt of €75.828 thousand (31 December 2017: €64.730 thousand investment properties and €12.225 thousand financial assets at fair value through profit or loss) respectively.

During the year to 31 December 2018 there were disposals of repossessed collaterals of €9.025 thousand (31 December 2017: €1.301 thousand).

Risk of counterparty banks

The Group 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 department 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.

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Country risk

The Group runs the risk of losing capital due to possible political, economic and other events in a particular country where the Group'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 and 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.

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 and during the year ended 31 December 2018 there were no violations of the CRR Large Exposure Limits.

As at and during the year ended 31 December 2018 the Bank exceeded the maximum legal lending limit to a major shareholder under the Cyprus Banking Law primarily due to a credit enhancement provided, in the form of a guarantee, by Piraeus Bank S.A. as part of the transaction between Piraeus Bank S.A. and Holding M. Sehnaoui SAL. The Central Bank of Cyprus has been notified accordingly and has not requested any remedial action from the Bank.

Market risk

Market risk includes interest rate risk, currency risk and liquidity risk.

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 Group's loan portfolio.

With regards to balance sheet items in the Group's portfolio as at 31 December 2018 a parallel increase in market interest rates across all currencies by 200 basis points would result in an increase in profit before tax by €5,6m (2017: €2,7m). A parallel decrease in market interest rates by 200 basis points would result in an decrease in profit before tax by €5,6m (2017: €2,7m).

The following table summarises the Group's exposure to interest rate risk. Included in the table are the Group'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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

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
	€	€	€	€	€	€	€
31 December 2018							
Assets							
Cash and deposits with Central Bank	184.735.746	-	-	-	-	16.027.284	200.763.030
Placements with other Banks	107.672.594	-	-	-	-	-	107.672.594
Loans and advances to customers	273.551.128	237.136.732	66.974.426	510.592	459.866	-	578.632.744
Debt securities at amortised cost	35.832.616	20.654.235	118.907.643	118.571.935	77.391.167	-	371.357.596
Financial assets at fair value through profit or loss	1.851.152	5.699.608	-	8.724.481	-	-	16.275.241
Derivative financial instruments	-	-	-	-	-	63.173	63.173
Other assets	-	-	-	-	-	1.777.592	1.777.592
	603.643.236	**263.490.575**	**185.882.069**	**127.807.008**	**77.851.033**	**17.868.049**	**1.276.541.970**
2018							
Liabilities							
Due to other banks	309.758	-	14.830.444	-	-	-	15.140.202
Customer deposits	846.376.541	136.541.813	237.507.138	-	-	-	1.220.425.492
Derivative financial instruments	-	-	-	-	-	807.898	807.898
Other liabilities	-	-	-	-	-	48.554.765	48.554.765
Total	**846.686.299**	**136.541.813**	**252.337.582**	**-**	**-**	**49.362.663**	**1.284.928.357**
Net balance sheet position	**(243.043.063)**	**126.948.762**	**(66.455.513)**	**127.807.008**	**77.851.033**		

	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
	€	€	€	€	€	€	€
31 December 2017							
Assets							
Cash and deposits with Central Bank	315.092.802	-	-	-	-	11.839.337	326.932.139
Placements with other Banks	51.629.291	-	-	-	-	-	51.629.291
Loans and advances to customers	285.142.953	187.382.167	40.537.162	209.301	247.942	-	513.519.525
Available for sale financial assets	6.495.682	46.960.336	9.508.592	28.807.732	122.882.518	-	214.654.860
Financial assets at fair value through profit or loss	138.466	15.671.826	-	-	-	-	15.810.292
Derivative financial instruments	-	-	-	-	-	32.267	32.267
Other assets	-	-	-	-	-	2.666.421	2.666.421
Total	**658.499.194**	**250.014.329**	**50.045.754**	**29.017.033**	**123.130.460**	**14.538.025**	**1.125.244.795**
Liabilities							
Due to other banks	1.813.517	667.157	-	-	-	-	2.480.674
Customer deposits	677.846.681	143.151.631	282.147.356	54.329	-	-	1.103.199.997
Derivative financial instruments	-	-	-	-	-	470.110	470.110
Other liabilities	-	-	-	-	-	21.813.798	21.813.798
Total	**679.660.198**	**143.818.788**	**282.147.356**	**54.329**	**-**	**22.283.908**	**1.127.964.579**
Net balance sheet position	**(21.161.004)**	**106.195.541**	**(232.101.602)**	**28.962.704**	**123.130.460**		

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

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 Group 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 Group enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Group'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.

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 Group and the prevailing market conditions.

The table below summarises the Group's currency risk which stems from open currency positions on 31 December 2018. The analysis below assumes possible scenarios of movements to take place for exchange rates against Euro.

Currency	Change in exchange rate	2018 Impact on consolidated income statement €000	2017 Impact on consolidated income statement €000
United States Dollar	+10% (-10%)	+14 (-14)	+30 (-30)
Pound sterling	+10% (-10%)	+3 (-3)	+10 (-10)
Swiss Franc	+10% (-10%)	+9 (-9)	+231 (-231)
Other currencies	+10% (-10%)	+5 (-5)	+0 (0)

The following table summarises the Group's exposure to currency risk. In the table the carrying values of the Group'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 €
2018						
Assets						
Cash and deposits with Central Bank	200.478.277	133.987	141.672	5.430	3.664	200.763.030
Placements with other banks	89.783.894	4.836.896	2.953.086	931.554	9.167.164	107.672.594
Loans and advances to customers	530.879.292	32.889.566	2.858.478	11.953.706	51.702	578.632.744
Debt securities at amortised cost	312.611.580	58.746.016	-	-	-	371.357.596
Financial assets at fair value through other comprehensive income	6.990.945	-	-	-	-	6.990.945
Financial assets at fair value through profit or loss	14.184.684	8.724.481	-	-	-	22.909.165

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk (continued)

	Euro	US Dollar	Pound sterling	Swiss Franc	Other currencies	Total
	€	€	€	€	€	€
2018						
Derivative financial instruments	30.231	-	32.942	-	-	63.173
Other assets	3.304.399	(139.818)	19.445	(884.345)	(522.089)	1.777.592
Total assets	**1.158.263.202**	**105.191.128**	**6.005.623**	**12.006.345**	**8.700.441**	**1.290.166.839**
Liabilities						
Due to other banks	15.114.734	1.108	-	-	24.360	15.140.202
Customer deposits	1.031.033.450	149.242.413	28.766.700	625.250	10.757.679	1.220.425.492
Derivative financial instruments	680.992	21.478	-	54.014	51.414	807.898
Current tax liabilities	107.887	-	-	-	-	107.887
Deferred tax liabilities	635.795	-	-	-	-	635.795
Other liabilities	48.861.665	(185.811)	100.931	(371.191)	149.171	48.554.765
Total liabilities	**1.095.690.841**	**149.079.188**	**28.867.631**	**308.073**	**10.982.624**	**1.284.928.357**
Equity	**111.792.701**	**-**	**-**	**-**	**-**	**111.792.701**
Total equity and liabilities	**1.207.483.542**	**149.079.188**	**28.867.631**	**308.073**	**10.982.624**	**1.396.721.058**
Net balance sheet position	**(49.220.240)**	**(43.888.060)**	**(22.862.008)**	**11.698.272**	**(2.282.183)**	**(106.554.219)**
Net notional amount of derivative financial instruments	**(57.167.196)**	**43.833.655**	**22.894.897**	**(11.793.175)**	**2.231.819**	**-**
Net foreign exchange position	**(106.387.436)**	**(54.405)**	**32.889**	**(94.903)**	**(50.364)**	**(106.554.219)**

	Euro	US Dollar	Pound sterling	Swiss Franc	Other currencies	Total
	€	€	€	€	€	€
2017						
Assets						
Cash and deposits with Central Bank	326.488.041	277.142	139.644	22.535	4.777	326.932.139
Placements with other banks	10.945.302	25.132.283	10.085.818	568.686	4.897.202	51.629.291
Loans and advances to customers	474.852.863	21.418.572	3.524.544	13.669.025	54.521	513.519.525
Available for sale financial assets	193.353.256	33.505.753	-	-	-	226.859.009
Assets at fair value through profit or loss	28.035.336	-	-	-	-	28.035.336
Derivative financial instruments	12.659	14.420	462	3.576	1.150	32.267
Other assets	3.863.037	(333.799)	(29.368)	(336.426)	(497.023)	2.666.421
Total assets	**1.037.550.484**	**80.014.371**	**13.721.100**	**13.927.396**	**4.460.627**	**1.149.673.988**

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk (continued)

	Euro	US Dollar	Pound sterling	Swiss Franc	Other currencies	Total
	€	€	€	€	€	€
2017						
Liabilities						
Due to other banks	2.463.409	17.265	-	-	-	2.480.674
Customer deposits	919.717.914	147.133.678	29.004.903	199.475	7.144.027	1.103.199.997
Derivative financial instruments	659	138.792	95.691	234.788	180	470.110
Other liabilities	8.501.832	2.658.006	486.523	89.044	78.393	21.813.798
Total liabilities	**940.683.814**	**149.947.741**	**29.587.117**	**523.307**	**7.222.600**	**1.127.964.579**
Equity	**116.197.483**	**-**	**-**	**-**	**-**	**116.197.483**
Total equity and liabilities	**1.056.881.297**	**149.947.741**	**29.587.117**	**523.307**	**7.222.600**	**1.244.162.062**
Net balance sheet position	**(19.330.803)**	**(69.933.370)**	**(15.866.017)**	**13.404.089**	**(2.761.973)**	**(94.488.074)**
Net notional amount of derivative financial instruments	**(72.449.984)**	**(69.628.503)**	**15.769.209**	**(15.710.674)**	**2.762.946**	**-**
Net foreign exchange position	**(91.780.787)**	**(304.867)**	**(96.808)**	**(2.306.585)**	**973**	**(94.488.074)**

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 Group arises from possible adverse changes in market prices of equity securities. The Group invests in listed and non-listed equity shares which, depending on the purpose of the investment, are classified in the appropriate portfolio. Currently investments in equity securities, are classified at FVTOCI and FVTPL. Cyprus government bonds and corporate bonds listed in an active market which are held for trading, are also classified at FVTPL.

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 2018 would result in a decrease /increase in net equity of €0,7m (2017: €0,6m).

As at 31 December 2018 the trading debt securities are exposed to price fluctuations of bond instruments. A decrease/ increase in the market price of the bonds by 10% as at 31 December 2018 would result in a decrease/ increase in net equity of €0,2m (2017: €1,6m).

The Group 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. This risk is monitored and controlled by the Treasury Department, the Finance Division and the Risk Management Department.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Liquidity risk (continued)

The Local Regulatory Protective Ratios were abolished at the beginning of 2018 and new prudential rules have been introduced by the Central Bank of Cyprus. In addition to the Liquidity Coverage Ratio (LCR) which is based on EU regulation 2016/61, during 2018 the Bank complied with enhanced liquidity requirements in the form of add-ons to the minimum LCR requirement. The objective of this measure, was to ensure a gradual release of the excess liquidity in the Cyprus banking system arising from the lower LCR requirement as compared to local prudential requirements previously in place. As at and during the year ended 31 December 2018, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank as well as the CBC Add-Ons.

The liquidity coverage ratio stood at 552,9% (31 December 2017: 323%) compared to minimum requirement of 100%.

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

The concentration, diversity and maturity profile of customer deposits

a. Adopting pricing policies that contribute to establishing a stable depository base
b. Maintaining a balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities
c. Monitoring the Weekly Liquidity Position as submitted to the Central Bank of Cyprus
d. Monitoring Liquidity Monitoring Metrics (ALMM) under Article 415(3)(b) of Regulation (EU) No 575/2013.

Cash flows from non-derivative financial instruments

The following liquidity risk table analyses the financial assets and liabilities of the Group into respective time bands based on the remaining period from the balance sheet date to the contractual maturity date. Loans with expired maturity dates are included in “up to one month” column in the table below.

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
	€	€	€	€	€	€
2018						
Financial assets						
Cash and deposits with Central Bank	200.763.030	-	-	-	-	200.763.030
Placements with other banks	107.672.594	-	-	-	-	107.672.594
Derivative financial instruments	63.173					63.173
Financial assets at fair value through profit or loss	8.485.076	5.699.608	-	8.724.481	-	22.909.165
Financial assets at fair value through other comprehensive income	6.990.945	-	-	-	-	6.990.945
Loans and advances to customers	1.715.688	6.657.329	149.820.600	70.309.763	350.129.364	578.632.744
Debt securities at amortised cost	35.832.616	20.654.235	118.907.643	118.571.935	77.391.167	371.357.596
Other assets	1.777.592	-	-	-	-	1.777.592
	363.300.714	**33.011.172**	**268.728.243**	**197.606.179**	**427.520.531**	**1.290.166.839**
Financial liabilities						
Due to other banks	309.758	-	14.830.444	-	-	15.140.202
Customer deposits	846.400.677	136.668.417	238.289.352	-	-	1.221.358.446
Other liabilities	48.554.765	-	-	-	-	48.554.765
	895.265.200	**136.668.417**	**253.119.796**	**-**	**-**	**1.285.053.413**
Net liquidity position	**(531.964.486)**	**(103.657.245)**	**15.608.447**	**197.606.179**	**427.520.531**	**5.113.426**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Liquidity risk (continued)

	Up to 1 month	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	€	€	€	€	€	€
2017						
Financial assets						
Cash and deposits with Central Bank	326.932.139	-	-	-	-	326.932.139
Placements with other banks	51.629.291	-	-	-	-	51.629.291
Derivative financial instruments	32.267					32.267
Loans and advances to customers	8.976.363	10.916.731	152.930.916	57.058.223	408.036.187	637.918.420
Available for sale financial assets	6.495.682	46.960.336	15.464.811	28.807.732	129.130.448	226.859.009
Financial assets at fair value through profit or loss	12.363.510	15.671.826	-	-	-	28.035.336
Other assets	2.666.421	-	-	-	-	2.666.421
	409.095.673	**73.548.893**	**168.395.727**	**85.865.955**	**537.166.635**	**1.274.072.883**
Financial liabilities						
Due to other banks	1.813.517	667.157	-	-	-	2.480.674
Customer deposits	679.830.666	144.149.117	284.117.910	-	-	1.108.097.693
Other liabilities	21.813.798	-	-	-	-	21.813.798
	703.457.981	**144.816.274**	**284.117.910**	**-**	**-**	**1.132.392.165**
Net liquidity position	**(294.362.308)**	**(71.267.381)**	**(115.722.183)**	**85.865.955**	**537.166.635**	**141.620.718**

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 32.

35. 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 the year ended 31 December 2018, the Bank was in full compliance with the Overall Capital Requirement (OCR) set by the ECB which consists of the Total SREP Capital Requirement (Pillar I and Pillar II) and the combined buffer requirement. Following an amendment in the Cypriot Banking Law in February 2017 the Capital Conservation Buffer (CCB) is being gradually phased-in and has a retroactive application. The CCB increases by 0,625% every year starting from 1 January 2016 to 2,5% by 1st January 2019. For 2018, the CCB stands at 1,875%.

36. 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 Group 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

36. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Group. Generally accepted methods of determining fair value include reference to quoted market prices and transactions for similar financial instruments.

The Group 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.

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

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2018				
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	-	-	6.990.945	6.990.945
Financial assets at fair value through profit or loss	7.550.760	-	15.358.405	22.909.165
Derivative financial instruments	-	63.173	-	63.173
Investment properties	-	-	75.827.500	75.827.500
Property and equipment	-	-	24.487.944	24.487.944
	7.550.760	**63.173**	**122.664.794**	**130.278.727**
Other financial assets not measured at fair value				
Cash and balances with Central Banks	-	-	200.763.030	200.763.030
Placements with other banks	-	-	107.672.594	107.672.594
Financial assets at amortised cost	371.357.596	-	-	371.357.596
Loans and advances to customers	-	-	578.632.744	578.632.744
Other assets	-	-	1.777.592	1.777.592
	371.357.596	**-**	**888.845.960**	**1.260.203.556**

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2018				
Liabilities measured at fair value				
Derivative financial instruments	-	807.898	-	807.898
	-	**807.898**	**-**	**807.898**
Other financial liabilities				
Amounts due to other banks and deposits from banks			15.140.202	15.140.202
Deposits and other customer accounts			1.220.425.492	1.220.425.492
Other liabilities	-	-	48.554.765	48.554.765
	-	**-**	**1.284.120.459**	**1.284.120.459**

There were no significant transfers between levels during the year.

36. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2017				
Assets measured at fair value				
Available for sale financial assets	214.654.860	-	12.204.149	226.859.009
Financial assets at fair value through profit or loss	15.810.292	-	12.225.044	28.035.336
Derivative financial instruments	-	32.267	-	32.267
Investment properties	-	-	64.730.039	64.730.039
Property and equipment	-	-	24.085.092	24.085.092
	230.465.152	**32.267**	**113.244.324**	**343.741.743**
Other financial assets not measured at fair value				
Cash and balances with Central Banks	-	-	326.932.139	326.932.139
Placements with other banks	-	-	51.629.291	51.629.291
Loans and advances to customers	-	-	513.519.525	513.519.525
Other assets	-	-	2.666.421	2.666.421
	-	-	**894.747.376**	**894.747.376**
Financial liabilities measured at fair value				
Derivative financial instruments	-	470.110	-	470.110
	-	**470.110**	-	**470.110**
Financial liabilities				
Amounts due to other banks and deposits from banks	-	-	2.480.674	2.480.674
Deposits and other customer accounts	-	-	1.103.199.997	1.103.199.997
Other liabilities	-	-	21.813.798	21.813.798
	-	-	**1.127.494.469**	**1.127.494.469**

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 Cyprus government bonds and Cypriot corporate bonds listed in Foreign Stock Exchanges and classified at fair value through profit or loss.

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 and dividend discount model.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

36. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018:

	Debt instruments €	Equity instruments €	Total €
1 January 2018	12.225.044	12.204.149	24.429.193
Additions	-	65.310	65.310
Transfer to investment property	(12.225.044)	-	(12.225.044)
Gain recognised in the consolidated income statement	-	1.355.410	1.355.410
31 December 2018	**-**	**13.624.869**	**13.624.869**
Total gains for the year included in the consolidated income statement			
Change in unrealised gains (or losses) for the year included in consolidated income statement for assets held at the end of the reporting period	-	1.355.410	1.355.410

The following table presents the changes in Level 3 instruments for the year ended 31 December 2017:

	Debt instruments €	Equity instruments €	Total €
1 January 2017	11.859.747	12.204.149	24.063.896
Disposals	(341.760)	-	(341.760)
Gain recognised in the consolidated income statement	707.057	-	707.057
31 December 2017	**12.225.044**	**12.204.149**	**24.429.193**
Total gains for the year included in the consolidated income statement			
Change in unrealised gains (or losses) for the year included in consolidated income statement for assets held at the end of the reporting period	707.057	-	707.057

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

37. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2018

	FVTPL €	FVOCI – Debt instruments €	FVOCI – Equity instruments €	Amortised cost €	Total carrying amount €
Assets					
Cash and deposits with Central Bank	-	-	-	200.763.030	200.763.030
Placements with other banks	-	-	-	107.672.594	107.672.594
Derivative financial instruments	63.173	-	-	-	63.173
Loans and advances to customers	-	-	-	578.632.744	578.632.744
Investment securities:					
Debt securities	7.550.760	-	-	371.357.596	378.908.356
Equity securities	15.358.405	-	6.990.945	-	22.349.350
Other assets	-	-	-	1.777.592	1.777.592
Total financial assets	**22.972.338**	**-**	**6.990.945**	**1.260.203.556**	**1.290.166.839**
Liabilities					
Derivative financial instruments	807.898	-	-	-	807.898
Amounts due to other banks and deposits from banks	-	-	-	15.140.202	15.140.202
Deposits and other customer accounts	-	-	-	1.220.425.492	1.220.425.492
Other liabilities	-	-	-	48.554.765	48.554.765
Total financial liabilities	**807.898**	**-**	**-**	**1.284.120.459**	**1.284.928.357**

31 December 2017

	Loans and receivables €	Trading derivatives €	Available for sale financial assets €	Financial assets at fair value through profit or loss €	Total €
Assets					
Cash and deposits with Central Bank	326.932.139	-	-	-	326.932.139
Placements with other banks	51.629.291	-	-	-	51.629.291
Loans and advances to customers	513.519.525	-	-	-	513.519.525
Available for sale financial assets	-	-	226.859.009	-	226.859.009
Financial assets at fair value through profit or loss	-	-	-	28.035.336	28.035.336
Derivative financial instruments	-	32.267	-	-	32.267
Other assets	2.666.421	-	-	-	2.666.421
Total financial assets	**894.747.376**	**32.267**	**226.859.009**	**28.035.336**	**1.149.673.988**

37. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	Trading derivatives €	Other financial liabilities €	Total €
Liabilities			
Due to other banks	-	2.480.674	2.480.674
Customer deposits	-	1.103.199.997	1.103.199.997
Derivative financial instruments	470.110	-	470.110
Other liabilities	-	21.813.798	21.813.798
Total financial liabilities	**470.110**	**1.127.494.469**	**1.127.964.579**

38. RELATED PARTY TRANSACTIONS

The Group is owned by a number of investors, none of which, has a direct or indirect controlling interest on the Group.

The table below presents transactions and balances with the key management personnel and board members, and connected persons as at 31 December 2018 and 31 December 2017:

	2018 €	2017 €
Loans and advances	298.943	278.439
Interest income	6.589	7.027
Deposits	7.175.983	2.472.168
Interest expense	40.249	17.953
Other fees	45.285	11.794

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

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 Group

	2018 €	2017 €
Key management personnel remuneration:		
Salaries and other current benefits and employer's social insurance contributions	773.692	985.277
Total key management personnel remuneration – under their executive capacity (i)	**773.692**	**985.277**
Total key management personnel remuneration – as directors	-	-

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

Non-executive directors remuneration

	2018 €	2017 €
Total remuneration of non-executive directors	391.617	313.292

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

39. EVENTS AFTER THE REPORTING PERIOD

ACQUISITION OF USB BANK BUSINESS

Through an agreement dated 31 July 2018 entered into between the Bank and USB Bank PLC ('USB'), it was agreed that the Bank would acquire all the assets, liabilities and the banking business of USB, excluding only certain property assets, with a view to consolidate it with its own business. The assets and liabilities of USB mainly relate to loans receivable, customer deposits, cash, debt securities and stock of properties.

The agreement was completed on 18 January 2019 for a total consideration of €40.245.637, following satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited Reference Accounts) by the seller, seller's shareholder approval and successful completion of the capital raise on the part of the Bank.

The transaction was supported by a capital increase of €54m of which: (a) €44m Ordinary Shares 44m (5.648.267 shares €7,79 each), and (b) €10m Preference Shares (1.250.000 shares €8 each) which are eligible as AT1, and which were mainly provided by AstroBank's current shareholders.

The preference shares (PRCS) are redeemable and may be redeemed by AstroBank only. There is no fixed redemption date or maturity date. They are unsecured and rank (a) junior to (i) all liabilities of the Group including subordinated liabilities and (ii) instruments issued or guaranteed ranking senior to PRCS, (b) pari passu with each other and (c) senior to the ordinary shares. The preference shareholders do not have the right to be present or to vote at any general meeting of AstroBank. PRCS have the right to the distribution to be paid annually following signing of the financial statements of the Group. AstroBank may elect, in its sole and absolute discretion, not to pay and/ or to cancel the payment of the Distribution on the PRCS in whole or in part at any time and for any reason.

In accordance with the Bank's accounting policy, business combinations are accounted for using the acquisition method of accounting in accordance with IFRS 3. According to IFRS 3 each identifiable asset and liability is measured at its acquisition-date fair value.

Applying the above policy, where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition.

The benefits of the acquisition of USB Bank's business focus on:

- strengthening the Group's presence in the market;
- increase in momentum and enhancement of the capacity and potential of the future organic growth;
- the existence of substantial synergies relating to operating costs and revenue.

As of the date of approval of these consolidated financial statements, the Bank is still in the process of calculating the fair value of the acquired assets and liabilities as at the acquisition date. Therefore, at the date of these consolidated financial statements, the Bank cannot disclose the fair value of the acquired assets and liabilities, the financial effect of adjustments to be recognised in the current reporting period that relate to the business combination and the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the business combination that occurred on the 18 of January 2019 had been as of the beginning of the annual reporting period.

The impact on the consolidated income statement and the consolidated statement of comprehensive income had USB Bank PLC operations been consolidated from 1 January 2018 is unavailable.

Building a better
working world

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Independent Auditor's Report

To the Members of AstroBank Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of AstroBank Limited (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 10 to 97 and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment on loans and advances to customers including IFRS 9 transition On 1 January 2018, the Group adopted IFRS 9, a new accounting standard for financial instruments. This standard introduced a model of expected credit losses (ECL), rather than the incurred loss model which was previously applied under IAS 39. As at 31 December 2018, gross loans and advances to customers amounted to €759.741.111 and the related impairment amounted to €181.108.367. The relevant accounting policy is presented in the accounting policies and further analysed in Note 2 to the consolidated financial statements. Management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the ECL for loans and advances to customers. As loans and advances comprise a large portion of the Group's assets, and due to the significance of judgement used in estimating the expected credit losses, the impairment on loans and other advances is considered to be a key audit matter. Refer to Note 6,13,18 and 34 to the consolidated financial statements for the relevant disclosures.	The key judgments and estimates in respect of the timing and measurement of ECL which we focused on include: • The allocation of loans and advances to Stages 1,2 or 3 using criteria in accordance with the standard; • The interpretations and assumptions used to build the model that calculated ECL; • The completeness and accuracy of data used in the calculation of ECL; • The inputs, assumptions and probability weightings assigned to multiple economic scenarios; • The identification and measurement of individually assessed provisions; and • The accuracy and adequacy of the disclosures in the financial statements. In obtaining sufficient appropriate audit evidence we: • Performed walkthroughs of the processes relevant to the calculation of ECL at 1 January 2018 and onwards to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL. • Inspected key technical papers such as the ECL policy and engaged our internal financial risk management specialists to read the methodology of the Bank used for the calculation of IFRS 9 at 1 January 2018 and onwards and assess whether is in accordance with IFRS 9. • Tested a sample of loans and advances to customers and assessed the inputs used in the ECL calculation to assess whether is in accordance with the Bank's policy and methodology.

	• Performed analytical procedures on the ECL recognised on 1 January 2018 and 31 December 2018 and sensitivity analysis to assess whether the ECL recognised by the Bank is adequate. • Obtained and read the minutes of the Provisioning Committee meetings where the inputs, assumptions and ECL adequacy were discussed and approved by the Provisioning Committee. • Analysed and evaluated the criteria used to allocate loans and advances to customers to Stage 1,2 or 3 in accordance with IFRS 9. We selected a sample of loans and advances to customers in Stage 1, 2 or 3 to test whether they were allocated to the appropriate stage. • Tested the completeness and accuracy of the data through reconciliation to the source systems. • Tested a sample of the loan reviews performed by the Bank and assessed the measurement of the provisions including the main assumptions and inputs used such us collateral value, liquidation date and estimated cash flows. • Tested the arithmetical accuracy of the ECL calculation for 1 January 2018 and 31 December 2018. • Assessed the disclosures made against the relevant accounting standards.
Going Concern As required by IFRSs and as disclosed in the Statement of Directors' Responsibilities, Directors are required to prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. The Directors have determined that the going concern principle is appropriate and that the Group is taking all necessary measures to maintain its viability and the	Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient appropriate audit evidence we: • Obtained and read correspondence with the regulator including correspondence with regards to regulatory capital and liquidity requirements of the Group.

development of its business into the future. As part of their assessment, the Directors have considered compliance with regulatory measures and the uncertainty in executing the required steps in the Business and Capital Plan. The Directors have formulated actions as deemed appropriate to ensure the Group is a going concern into the future. In light of the judgment and uncertainties involved in the delivery of the Business and Capital Plan and the actions formulated therein, this is considered a key audit matter. Refer to Management Report and Note 3 to the consolidated financial statements.	• Met with members of the Central Bank of Cyprus to understand their assessment on a number of matters including the Group's Business and Capital plan, the associated implementation risk present in the Group executing the plan and the main shareholder's commitment to provide additional capital if required. • Inspected the Group's Business and Capital plan approved by the Board in April 2019 and assessed (including performing sensitivity analysis) the main inputs and assumptions used such as new loans estimated to be provided to customers, expected interest rates and expected probability of default on existing portfolio. • Inspected the regulatory capital projections of the Group for the next 12 months, which take into consideration the Business and Capital plan, including considering additional possible scenarios. • Assessed the major shareholder's commitment to the Central Bank of Cyprus to provide additional capital by the end of 2019 if required to meet the Group's capital requirements. • Assessed the disclosures made by the Directors in the consolidated financial statements in relation to going concern for adequacy.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report.

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

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

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

The Board of Directors is responsible for the preparation of consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

During the year the Independent Auditors of the Group, PricewaterhouseCoopers Limited, resigned and Ernst & Young Cyprus Limited was appointed in their place. Ernst & Young Cyprus Limited was appointed as auditors of the Group on 12 June 2018 at the Bank's Annual General Meeting.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 14 June 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the consolidated 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 consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

Other Matters

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

Comparative figures

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 9 May 2018.

The engagement partner on the audit resulting in this independent auditor's report is Savvas Pentaris.

Savvas Pentaris
Certified Public Accountant and Registered
Auditor for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
Nicosia

8 July 2019