

---

# ***AstroBank Limited***

Office copy (signed)

*Report and  
consolidated  
financial  
statements*

*31 December 2017*



**ASTROBANK LIMITED**

**Annual Report and Consolidated financial statements  
31 December 2017**

**Contents**

	<b>Page</b>
Board of Directors and Professional Advisors	1
Consolidated Management Report	2 - 10
Independent Auditor's Report	11-16
Consolidated Income Statement	17
Consolidated Statement of Other Comprehensive Income	18
Consolidated Statement of Financial Position	19
Consolidated Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Notes to the Consolidated Financial Statements	22 – 89



## ASTROBANK GROUP

### Board of Directors

Shadi Karam  
Maurice Sehnaoui  
George Appios  
Bassam Diab  
Maria Dionysiadis  
George Kourris  
George Liakopoulos  
Constantinos St. Loizides  
Raoul Nehme  
Costas Partassides

Marios A. Savvides  
Socrates Solomides  
Andreas Vassiliou

### Executive Committee

Raoul Nehme  
George Appios  
Marios A. Savvides  
Neoclis Neocleous

### Secretary

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

### Independent Auditors

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

### Headquarters/Registered office

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

Independent Non-Executive Chairman  
Non-Executive Vice Chairman  
Executive Director & Chief Executive Officer  
Non-Executive Director  
Independent Non-Executive Director  
Independent Non-Executive Director  
Non-Executive Director  
Non-Executive Director  
Executive Director & Chairman of the Executive Committee  
Independent Non-Executive Director (*appointed on 15  
November 2017*)  
Executive Director & Deputy Chief Executive Officer  
Independent Non-Executive Director  
Independent Non-Executive Director

Executive Director & Chairman of the Executive Committee  
Executive Director & Chief Executive Officer  
Executive Director & Deputy Chief Executive Officer  
General Manager



## Consolidated Management Report

The Board of Directors submits to the shareholders of AstroBank Limited ("the Bank") their Report together with the audited consolidated financial statements for the year ended 31 December 2017. The Annual Report and 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 2017.

### 1 Principal activities

The principal activity of the Bank, which is unchanged from last year, 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 operates as an insurance broker.

All Group companies are set out in Note 33 of the consolidated financial statements.

### 2 Branches

The Bank operates in Cyprus through 13 Retail Banking branches (2016: 13), 4 Service Centers for Large Corporate Companies and SMEs (2016: 4), and 2 Service Centers for International Business Services (2016: 2).

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

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

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 separate financial statements of the Bank as at 31 December 2016) for the purpose of writing off the accumulated losses by an equivalent amount.

On 21 December 2017 all necessary regulatory and other approvals and consents were granted for the reduction of the share premium and the write off of the accumulated losses of the Bank.

The movements in share capital and share premium during the year are presented in Note 28 to the financial statements.

### 4 Change of the Parent Bank's name

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

### 5 Future developments/prospects

The Group's strategy is focused towards organic growth of the loan portfolio and the client base as well as, if opportunities present themselves, acquisitions that would lead to volume and cost synergies for the Bank.

In the short to medium term, priority for Executive Management remains the reduction of non-performing loans through restructurings, debt for asset swaps and negotiated settlements.

The Group's strategic targets include the reduction of operating expenses. In line with this strategic target/objective, a Voluntary Early Retirement Scheme aiming for a reduction in personnel expenses and efficiency improvement was successfully completed in January 2018.

**Consolidated Management Report (continued)****5 Future developments/prospects (continued)**

The Group is at an advanced stage of negotiations for the acquisition of the assets, the liabilities and the business of USB Bank PLC. In principle approval has been obtained from the Central Bank of Cyprus.

**6 Results overview**

The results of the Group for the year ended 31 December 2017 are set on pages 17 and 18.

**Income statement analysis**

Net interest income (NII) for 2017 totaled €21,921,536 (2016: €23,370,561) and net interest margin (NIM) for the year was 2,0% (2016: 2,2%). The NII and NIM reduction primarily reflect the lower yield on liquid assets and competitive pressures on loan yields. Total net non-interest income for 2017 amounted to €15,979,930 (2016: 8,967,675). The increase reflects higher net fee and commission income across all categories, gains rather than losses on disposal of debt securities and income on trading book activity.

Total expenses for 2017 amounted to €29,722,144, increased by 17,8% compared 2016, mainly due to the increase in travelling expenses, marketing expenses, legal and professional consultancy fees and software maintenance costs (further analysis in Note 11). The increase in the IT related costs is primarily due to the fact that as of the end of 2016 the Bank is no longer a subsidiary of Piraeus Bank S.A..

Operating profit before impairment charges and other provisions in 2017 amounted to €8,179,322 compared to €7,099,372 in 2016. Provision charges for the impairment of customer loans and advances for 2017 totaled €980,503 compared to €15,421,162 in 2016. Profit after tax totaled €5,046,824 compared to a loss of €7,084,579 in 2016.

**Statement of Financial Position analysis**

The Group's total assets amounted to €1,245,141,054 (2016: €1,197,000,822) as at 31 December 2017, increased by 4,0% compared to December 2016

On 31 December 2017, the Core Equity Tier 1 (CET1) and total capital adequacy ratio of the Bank amounted to 17,0% compared to 15,2% as at the end of 2016 (Note 34).

As at the end of 2017, the Bank maintained healthy liquidity levels, with a euro stock liquidity ratio of 36,5% and a foreign currency stock liquidity ratio of 99,3% with the regulatory minima being 18% and 50% respectively. On 1 January 2018, the local regulatory liquidity requirements were abolished and in December 2017 the Central Bank of Cyprus introduced a macro-prudential measure in the form of liquidity add-on that was imposed on top of the Liquidity Coverage Ratio with effect from 1 January 2018.

The liquidity coverage ratio stood at 323% compared to the minimum requirement of 100%.

**Deposits**

Customer deposits totaled €1,103,199,997 at 31 December 2017 (2016: €1,072,463,255), increased by 2,9%, mainly due to increased current account balances of retail and foreign customers. They comprised of €919,717,914 deposits in Euro and €183,482,083 deposits in foreign currencies, mostly US Dollars.

Deposits by type	31.12.2017	% of total deposits	31.12.2016	% of total deposits
Current accounts	€545,7m	49,5%	€491,5m	45,8%
Savings accounts	€63,9m	5,8%	€49,3m	4,6%
Term deposits	€493,6m	44,7%	€531,7m	49,6%
<b>Total deposits</b>	<b>€1,103,2m</b>		<b>€1,072,5m</b>	



# Consolidated Management Report (continued)

ASTROBANK GROUP

## 6 Results overview (continued)

### Statement of Financial Position analysis (continued)

#### Loans and advances to customers

Gross loans, incorporating the change in accounting policy as explained in Note 2, totaled €723.612.814 at 31 December 2017 compared to €766.868.638 at 31 December 2016 (Note 17). The reduction of 5,6% was to a large extent driven by the fact that loan repayments and debt for asset swaps exceeded new disbursements and interest charged.

The net loans to deposits ratio stood at 46,5% as at 31 December 2017 (2016: 51,9%)

#### Gross loans balance by type:

	31.12.2017	31.12.2016	Variance %
Consumer	€73,9m	€67,7m	9,2%
Housing	€125,6m	€136,0m	-7,6%
Credit cards	€7,2m	€6,8m	5,9%
Corporate	€516,8m	€556,3m	-7,1%
<b>Gross loans</b>	<b>€723,5m</b>	<b>€766,8m</b>	<b>-5,6%</b>

#### Loan Portfolio Quality

Loans in arrears for more than 90 days (90+ DPD) were reduced by €35.440.750 (11,2% reduction) during the year ended 31 December 2017 to €280.962.187. The decrease was primarily due to the restructuring activity, including debt for asset swaps. 90+ DPD loans accounted for 38,8% of gross loans (90+ DPD ratio), compared to 41,3% at 31 December 2016. The provisioning coverage ratio of 90+ DPD loans increased to 74,8% at 31 December 2017 (31 December 2016: 68,5%).

	31 December 2017		31 December 2016	
	€	% of gross loans	€	% of gross loans
<b>90+ DPD</b>	<b>280.962.187</b>	<b>38,8%</b>	<b>316.402.937</b>	<b>41,3%</b>
Of which:				
-Loans with arrears for over 90 days but not impaired	17.197.067	2,3%	14.963.165	2,0%
-Impaired loans	263.765.120	36,5%	301.439.772	39,3%

The rate of reduction in Non-Performing exposures (NPEs) has been lower than that of loans in arrears for more than 90 days due to the strict exit criteria imposed by the Implementing Technical Standards of the European Banking Authority issued in 2014. The level of NPEs has been reduced by 9,2% to €406.431.430 (2016: €447.478.546), representing 56,2% (2016: 58,4%) of gross loans. The provision coverage ratio of NPEs, stood at 51,7% at 31 December 2017, compared to 47,0% at 31 December 2016.

	31 December 2017		31 December 2016	
	€	% of gross loans	€	% of gross loans
<b>On balance sheet NPEs as per EBA definition</b>	<b>406.431.430</b>	<b>56,2%</b>	<b>447.478.546</b>	<b>58,4%</b>
Of which:				
-NPEs with forbearance measures, no impairments and no arrears	28.061.746	3,9%	26.534.049	3,5%

**Consolidated Management Report (continued)**

**6 Results overview (continued)**

**Statement of Financial Position analysis (continued)**

**Loans and advances to customers (continued)**

Accumulated impairment losses amounted to €210.093.289 as at 31 December 2017 (2016: €210.427.135) and represented 29,0% of the total gross loans (2016: 27,4%).

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

**IFRS9 Implementation Program**

In July 2014, the International Accounting Standards Board issued the final version of IFRS9 Financial Instruments which is effective from 1st January 2018. Following the current implementation status of IFRS9 and based on current estimates, the Bank approximates the adoption of IFRS 9 to lead to an overall decrease in shareholders' equity of about €6,2 million net of tax mainly driven by the new impairment requirements. The Bank will adopt the transitional arrangements in order to mitigate the negative impact on CET 1 capital arising from expected credit losses provisions. Under Regulation 2017/2395, the Bank is allowed to include in its CET 1 capital a portion of the increased ECL provisions over a transitional period of 5 years. Applying regulatory transitional arrangements, the impact on the Bank's CET 1 ratio as at 1st January 2018 is a reduction of approximately 95 basis points on a fully loaded basis which is manageable and well within the Group's capital plans. The final impact is subject to further parameter calibrations.

**Debt for asset swaps implemented during 2017**

During the year ended 31 December 2017, the Group on-boarded €33.493.949 (2016: €24.350.000) of assets via the execution of debt for asset swaps and completed disposals of €1.300.520 (2016: €923.000).

**Key performance indicators:**

The table below shows some key indicators of the Group's performance for the years ended 31 December 2017 and 31 December 2016:

<b>Key Performance Indicators</b>		<b>2017 - After change in accounting policy</b>	<b>2017 - Prior to change in accounting policy</b>	<b>2016 - After change in accounting policy</b>	<b>2016 - Prior to change in accounting policy</b>
<b>Asset Quality</b>	90+ Days Past Due Ratio	38,8%	32,8%	41,3%	36,5%
	90+ Days Past Due Provision Coverage Ratio	74,8%	67,0%	66,5%	59,0%
	NPE Ratio	56,2%	51,8%	58,4%	55,0%
	NPE Provision Coverage Ratio	51,7%	42,4%	47,0%	39,2%
<b>Capital</b>	CET 1 and Total Capital (Transitional)	17,0%		15,2%	

# Consolidated Management Report (continued)

ASTROBANK GROUP

## 6 Results overview (continued)

### Key performance indicators (continued)

Key Performance Indicators		2017 - After change in accounting policy	2017 -Prior to change in accounting policy	2016 - After change in accounting policy	2016 -Prior to change in accounting policy
Efficiency	Net interest margin	2,0%		2,2%	
	Fee and commission income/Total Income	25,5%		23,2%	
	Cost/ Income	78,4%		78,0%	
Balance Sheet	Total assets (€m)	€1.245m		€1.197m	
	Total Gross Loans (€m)	€724m	€658m	€767m	€709m
	Total Deposits (€m)	€1.103m		€1.072m	
Liquidity	Liquid assets / Deposits	55,2%		51,4%	
	Net Loans/Deposits	46,5%		51,9%	
	Liquidity Coverage Ratio	323%		337%	
Profitability	Return on Average Assets	0,4%		-0,6%	
	Return on Average Equity	4,6%		-8,2%	

## 7 Principal risks and Operating Environment

The principal risks and uncertainties faced by the Group are credit risk, liquidity risk, litigation risk, market risk and the risk on changes in the fair value of property, as disclosed in Notes 2,3 and 34 of the financial statements. These risks are monitored and mitigated through various control mechanisms and processes.

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's expected recovery. The recovery in Cyprus maintains a solid pace, due mainly to a tightening labor market and stronger consumer spending. In 2017, the Cypriot economy provisionally grew by 3,9%, a steep acceleration from the 3% gain in 2016 and 2% in 2015. Economic growth is expected to remain strong in 2018, with real GDP increasing by 3,1% in Cyprus compared with just 2,1% in the euro zone. The strengthening economy is helping to lower unemployment nevertheless, the unemployment rate is still well above the country's pre-2010 average of about 4,7%. Inflation accelerated to 0,5% in 2017 from a 1,4% decline in 2016. Inflation is expected to decelerate slightly to 0,4% in 2018 before rising to 1,1% in 2019.

Supporting the positive outlook is the rise in business and consumer confidence. The European Commission's economic sentiment indicator for Cyprus showed a remarkable improvement, from a low of 67,5 in April 2013 to a record 117,8 in February 2018, well above the euro area average of 114,1. Services and retail trade recorded the greatest improvement in confidence. The tourism-dependent economy is also benefiting from an influx of international visitors and tourism revenue is up 9,6% from December 2016.

In the banking sector funding conditions continued to improve against a backdrop of favourable developments regarding non-performing exposures. In the banking sector

## Consolidated Management Report (continued)

### 7 Principal risks and Operating Environment (continued)

there have been significant improvements in funding conditions and asset quality. Total deposits increased marginally by 0,8% in the year, with resident deposits increasing by 3,3%. Loan deleveraging continued in the year with total loans outstanding dropping by 7,1% and loans to residents dropping by 4,8%.

In this context of a strengthening economy and narrowing imbalances, the Cyprus sovereign has benefited from a series of upgrades. Most recently in April 2018, Fitch Ratings upgraded its Long-Term Issuer Default ratings to 'BB+' with positive outlook.

While considerable progress has been achieved, Cyprus continues to face challenges primarily in relation to public and private indebtedness, the still high levels of non-performing loans and a possible deterioration of the external environment.

The Group's primary focus is the improvement in its loan quality and the strive for sustainable profitability. Its strong capital and liquidity position provides it with an important competitive advantage on which to base its future growth. Emphasis is also placed on reducing its funding costs, improving the return on its liquid assets, boosting and diversifying its fee and commission income and containing operating costs.

### 8 Risk Management

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.

The Group's risk management programme focuses on the unpredictability of the economic environment in which it operates and seeks to minimise potential adverse effects on the 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. The 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.

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

### 9 Currency Risk

Currency risk is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates. Currency risk arises from a positive or negative open position in a foreign currency, exposing the 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 spot or forward foreign exchange trades or even 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 into derivative product transactions such as foreign exchange forward contracts and foreign exchange swaps.

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

### 10 Interest rate risk

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

At 31 December 2017, the Group's interest bearing asset and liabilities amounted to €1.110.706.770 (2016: €1.096.266.080) and €1.105.680.671 (2016: €1.074.700.993) respectively.

## Consolidated Management Report (continued)

ASTROBANK GROUP

### 11 Credit risk

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

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

The Group's credit risk arises from placements at other banks amounting to €356.625.902 (2016: €393.111.224), mandatory deposits with the CBC in a minimum reserve account to €10.096.191 (2016: €28.349.812), loans receivable from customers €513.519.525 (2016: €556.441.503), available for sale financial assets €214.654.860 (2016: €74.074.782), debt securities ENIL (2016: €44.288.759) derivative financial instruments €32.267 (2016: €1.068.974), other assets €2.666.421 (2016: €1.175.199), and off balance sheet items (including credit guarantees, letters of guarantee and unutilized credit limits) €81.269.417 (2016: €75.541.225). The Management of the Group is confident in its ability to continue to control credit risk.

### 12 Liquidity risk

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

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

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

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

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

During the year ended 31 December 2017 the Bank's EUR liquidity regulatory ratios were at all times within the corresponding CBC limits and there were no violations, whereas the foreign currency liquidity regulatory ratio was in breach during February (maximum limit excess 4,87%). As from 1 January 2018 the Local Regulatory Protective Ratios have been abolished and new macro prudential rules have been imposed. The Bank must maintain additional liquidity requirements in the form of add-on rates on some of the LCR parameters and deposit categories.

As at 31 December 2017, at the date of this Annual Report and throughout the year ended 31 December 2017, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank.

Following the new rules, since 1 January 2018 and as at the date of this Annual Report there were no breaches in liquidity requirements.

## Consolidated Management Report (continued)

### 13 Going concern

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

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

- On 31 December 2017 the Bank maintained healthy liquidity levels, and was in compliance with the local protective liquidity requirement and the minimum Liquidity Coverage Ratio of the EU;
- On 31 December 2017 the Bank maintained a capital adequacy ratio at 17,0% higher than the minimum required ratio;
- The significant reduction in Non-Performing exposures (NPEs), which have decreased by 9,2% during 2017 and totaled €406.431.430 at 31 December 2017 and the increase of provisions coverage to 51,7% compared to 47,0% at 31 December 2016;
- The significant reduction of loans in arrears for more than 90 days (90+ DPD), which have decreased by 11,2% during 2017 and totaled €280.962.187 at 31 December 2017 and the increase of provisions coverage to 74,8% compared to 66,5% at 31 December 2016;
- The improvements in the macroeconomic conditions prevailing in Cyprus;
- The regular monitoring of the performance of the Group against business plans and targets;
- The diversity as well as the improving credit rating of the liquid assets held.

### 14 Capital Base and Adequacy

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

On 31 December 2017, the Bank maintained a capital adequacy ratio at 17,0%. Details of the capital management are disclosed in Note 34 to the Financial statements

### 15 Dividends

The Board of Directors does not recommend a dividend payment for the year 2017. The profit for the year is transferred to reserves.

### 16 Changes in group structure

During the year ended 31 December 2017 four new wholly owned subsidiaries were incorporated.

Other than the above, there were no changes in the group structure of the Bank during the year ended 31 December 2017.

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

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

Another 11 investors, with shareholdings of less than 10% each, held 41,62% of the Bank's share capital as of that date, and as at the date of this Annual Report.

## Consolidated Management Report (continued)

ASTROBANK GROUP

### 17 Corporate social responsibility

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

### 18 Board of Directors

The Members of the Board of Directors of the Bank as at 31 December 2017 and as at the date of this Annual Report are shown on page 1.

### 19 Remuneration of the Board of Directors

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

### 20 Related party transactions

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

### 21 Events after the reporting period

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

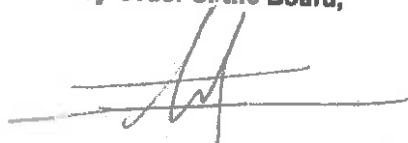
### 22 Independent Auditors

The appointment of a statutory auditor or an audit firm shall not exceed a maximum duration of nine years for public-interest entities based on EU Regulation No 537/2014 of the European Parliament and of the Council dated 16 April 2014.

In November 2017, the Bank applied for a two year extension of the maximum duration of the audit engagement to the Cyprus Public Audit Oversight Board. The Cyprus Public Audit Oversight Board granted the extension of the duration of the audit engagement by one year.

Following to the above, the Bank proceeded with a tender process complying with EU Regulation No 537/2014 requirements. The Board of Directors will recommend the appointment of Ernst & Young as the Bank's independent Auditors for the year ended 31 December 2018 at the next Annual General Meeting.

By Order of the Board,



George Appios  
Executive Director and Chief Executive Officer  
9 May 2018







*Independent Auditor's Report*  
**To the Members of AstroBank Limited**

*Report on the Audit of the Consolidated Financial Statements*

*Our opinion*

In our opinion, the accompanying consolidated financial statements of AstroBank Limited (the "Bank") and its subsidiaries (together the "Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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.

**What we have audited**

We have audited the consolidated financial statements which are presented in pages 17 to 89 and comprise:

- the Consolidated Statement of Financial Position as at 31 December 2017;
- the Consolidated Income Statement for the year then ended;
- the Consolidated Statement of Other Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

PricewaterhouseCoopers Ltd is a private company registered in Cyprus (Reg. No. 143594). Its registered office is at 3 Themistocles Dervis Street, CY-1066, Nicosia. A list of the company's directors, including for individuals the present and former (if any) name and surname and nationality, if not Cypriot and for legal entities the corporate name, is kept by the Secretary of the company at its registered office. PwC refers to the Cyprus member firm, PricewaterhouseCoopers Ltd and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.



### **Independence**

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.

### **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 judgement, 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.

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter</b>
<b><i>Impairment of loans and advances to customers</i></b>	
<p>Impairment of loans and advances to customers is a key audit matter due to the significance of the balance, complexity and subjectivity over estimating the timing and the amount of impairment.</p> <p>As at 31 December 2017, gross loans and advances to customers amounted to €723,612,814 (2016:€766,868,638) and the related impairment provision amounted to €210,093,289 (2016:€210,427,135).</p> <p>Relevant disclosures in relation to loans and advances to customers and the related impairment provisions are presented in Notes 3, 17 and 34 of the consolidated financial statements.</p> <p>The basis of the impairment provision policy is presented in the accounting policies and further analysed in Note 2 of the consolidated financial statements.</p> <p>The estimation of the impairment loss allowance on an individual basis requires the Group to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial conditions of the borrowers and expected future cash flows for the repayment of the credit facility either through the operations of the customer or the realisation of the collateral (for example, the business prospects for the customer, the realisable value of collateral, the Bank's position relative to other claimants and the likely cost and duration of the work-out process).</p>	<p>Our audit procedures in this area included among others:</p> <ul style="list-style-type: none"> <li>• assessing and testing the design and operating effectiveness of the controls over the Bank's loan impairment process such as review of Provisioning Committee and Recovery Banking Unit's minutes in order to identify impaired loans, ensure that the impairment methodology reflects the Committee's decisions and that appropriate actions are undertaken following the Committee's recommendations.</li> <li>• for individually assessed loans and advances to customers: <ul style="list-style-type: none"> <li>▪ assessed the appropriateness of the individual loan impairment methodology;</li> <li>▪ assessed accuracy and completeness of data input into the individual impairment model;</li> <li>▪ ensured mathematical accuracy of the individual impairment model through re-performance;</li> <li>▪ performed credit assessment on a sample of loans assessing the appropriateness of the impairment loss allowance and reasonableness of the amount of estimated recoverable cash flows, including realisable value of the collateral.</li> </ul> </li> <li>• for collectively assessed loans and advances to customers:</li> </ul>



Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Advances that have been assessed on an individual debtor level and for which no objective evidence of impairment exists, 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. The estimation of the impairment loss allowance on a collective basis is subjective in nature and is based on estimation of probabilities of default.</p>	<ul style="list-style-type: none"> <li>▪ assessed the appropriateness of the collective impairment loan methodology;</li> <li>▪ assessed whether the modelling assumptions used considered the relevant risks and were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the borrowers;</li> <li>▪ ensured mathematical accuracy of the collective impairment model through re-performance; and</li> <li>▪ assessed whether disclosures in relation to loans and advances to customers and the respective impairment thereon in the consolidated financial statements appropriately reflect the Bank's exposure to credit risk.</li> </ul>

The results of the above mentioned audit procedures were considered to be satisfactory.

### *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, but does not include the consolidated financial statements and our auditor's report thereon.

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 the 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 judgement 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***

We were first appointed as auditors of the Bank on 24 September 2007 by its shareholders for the audit of the financial statements for the period from 29 December 2006 (date of incorporation) to 31 December 2007. Our appointment has been renewed annually, since then, by shareholder's resolution. The Bank obtained its banking license on 29 November 2007 and accordingly the first financial year after the Bank qualified as an EU PIE was for the year ended 31 December 2008. Since the initial appointment as auditors of the Bank on 24 September 2007, the total period of uninterrupted engagement appointment was eleven years.





### ***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 Bank, which we issued on 8 May 2018 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:

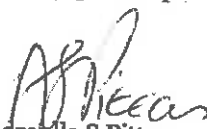
- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of 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 Matter***

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

The engagement partner on the audit resulting in this independent auditor's report is Androulla S. Pittas.

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

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

Nicosia, 9 May 2018



**Consolidated Income Statement  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

	Note	2017 €	2016 €
Interest income	4	30.524.752	34.024.198
Interest expense	5	<u>(8.603.216)</u>	<u>(10.653.637)</u>
<b>Net interest income</b>		<b>21.921.536</b>	<b>23.370.561</b>
Fee and commission income	6	11.497.309	9.416.291
Fee and commission expense	7	<u>(1.846.771)</u>	<u>(1.906.937)</u>
<b>Net fee and commission income</b>		<b>9.650.538</b>	<b>7.509.354</b>
Other income	8	4.144.168	1.959.894
Net income from held for trading financial assets		1.242.371	-
Gain / (loss) on disposal of debt securities		<u>942.853</u>	<u>(501.573)</u>
<b>Operating Income</b>		<b>37.901.466</b>	<b>32.338.236</b>
Staff expenses	9	(17.944.975)	(17.040.076)
Depreciation and amortisation	10	(752.076)	(594.966)
Operating expenses	11	<u>(11.025.093)</u>	<u>(7.603.822)</u>
<b>Profit before provisions</b>		<b>8.179.322</b>	<b>7.099.372</b>
Impairment of property, plant and equipment and other impairments		(217.354)	(756.970)
Provision for impairment of loans and advances	17	(980.503)	(15.421.162)
Other expenses	12	-	<u>(36.687)</u>
<b>Profit / (loss) before tax</b>		<b>6.981.465</b>	<b>(9.115.447)</b>
Income tax (charge)/ credit	13	<u>(1.934.641)</u>	<u>2.030.868</u>
<b>Profit / (loss) for the year</b>		<b><u>5.046.824</u></b>	<b><u>(7.084.579)</u></b>
<i>Profit/ (loss) for the year attributable to :</i>			
-Owners of the Parent Bank		5.046.824	(7.084.579)
-Non-controlling interest		-	-
<b>Profit / (loss) for the year</b>		<b><u>5.046.824</u></b>	<b><u>(7.084.579)</u></b>

The notes on pages 22 to 89 are an integral part of these consolidated financial statements.

**Consolidated Statement of Other Comprehensive Income  
for the year ended 31 December 2017**

	Note	2017 €	2016 €
<b>Profit/ (loss) for the year after tax</b>		<b><u>5.046.824</u></b>	<b><u>(7.084.579)</u></b>
<b>Other comprehensive income:</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Transfer of the reserve due to realised losses on disposal of available for sale financial assets	29	(275.929)	-
Available for sale financial assets – fair value reserve	29	<u>8.368.905</u>	<u>177.195</u>
<b>Other comprehensive income for the year after tax</b>		<b><u>8.092.976</u></b>	<b><u>177.195</u></b>
<b>Total comprehensive income for the year</b>		<b><u>13.139.800</u></b>	<b><u>(6.907.384)</u></b>
<i>Total comprehensive loss for the year attributable to:</i>			
-Owners of the Parent Bank		13.139.800	(6.907.384)
-Non-controlling interest		-	-
<b>Total comprehensive income/(loss) for the year</b>		<b><u>13.139.800</u></b>	<b><u>(6.907.384)</u></b>

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

The notes on pages 22 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2017

	Note	2017 €	2016 €
<b>Assets</b>			
Cash and balances with Central Banks	14	326.932.139	345.329.285
Placements with other banks	15	51.629.291	87.114.624
Receivables from debt securities	16	-	44.288.759
Loans and other advances to customers	17	513.519.525	556.441.503
Available for sale financial assets	18	226.859.009	86.278.931
Financial assets at fair value through profit or loss	19	28.035.336	11.859.747
Derivative financial instruments	32	32.267	1.068.974
Property, plant and equipment	21	24.085.092	24.085.751
Intangible assets	20	935.780	189.444
Investment properties	22	64.730.039	31.527.490
Deferred tax asset	26	5.716.155	7.641.115
Other assets	23	2.666.421	1.175.199
<b>Total assets</b>		<b><u>1.245.141.054</u></b>	<b><u>1.197.000.822</u></b>
<b>Liabilities</b>			
Amounts due to other banks and deposits from banks	24	2.480.674	2.237.738
Deposits and other customer accounts	25	1.103.199.997	1.072.463.255
Derivative financial instruments	32	470.110	1.547.932
Current tax liability		91.491	80.533
Deferred tax liability	26	887.501	883.393
Other liabilities	27	21.813.798	16.730.288
<b>Total liabilities</b>		<b><u>1.128.943.571</u></b>	<b><u>1.093.943.139</u></b>
<b>Equity</b>			
Share capital	28	14.113.487	14.113.487
Share premium	28	88.554.704	187.840.247
Other reserves	29	8.408.033	315.057
Retained earnings / (Accumulated losses)	29	5.121.259	(99.211.108)
<b>Total equity attributable to the owners of the Parent Bank</b>		<b><u>116.197.483</u></b>	<b><u>103.057.683</u></b>
Non-controlling interest		-	-
<b>Total equity</b>		<b><u>116.197.483</u></b>	<b><u>103.057.683</u></b>
<b>Total equity and liabilities</b>		<b><u>1.245.141.054</u></b>	<b><u>1.197.000.822</u></b>

On 9 May 2018 the Board of Directors of AstroBank Limited approved these consolidated financial statements for issue.

George Appios, Managing Director & Chief Executive Officer

Marios Savvides, Director, Deputy Chief Executive Officer

Marina Strovoldou, Chief Financial Officer

The notes on pages 22 to 89 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Attributable to the owners of the Parent Bank				Total	Total Non-controlling Interest	Total equity
	Share Capital	Share Premium	Fair value reserve and other reserves (Note 29)	Retained earnings (Note 29)			
	€	€	€	€	€	€	€
<b>2016</b>							
Balance at 1 <sup>st</sup> January	<u>3,360,798</u>	<u>158,692,933</u>	<u>137,862</u>	<u>(92,126,529)</u>	<u>69,965,064</u>	-	<u>69,965,064</u>
Comprehensive loss							
Loss for the year	-	-	-	<u>(7,084,579)</u>	<u>(7,084,579)</u>	-	<u>(7,084,579)</u>
Other comprehensive income							
Revaluation of available for sale financial assets	-	-	<u>177,195</u>	-	<u>177,195</u>	-	<u>177,195</u>
Comprehensive loss for the year 2016	-	-	<u>177,195</u>	<u>(7,084,579)</u>	<u>(6,907,384)</u>	-	<u>(6,907,384)</u>
Transactions with the owners of the Group							
Contributions and distributions							
Issue of ordinary shares (Note 28)	<u>10,752,689</u>	<u>29,247,314</u>	-	-	<u>40,000,003</u>	-	<u>40,000,003</u>
Total Contributions and distributions	<u>10,752,689</u>	<u>29,247,314</u>	-	-	<u>40,000,003</u>	-	<u>40,000,003</u>
Balance as at 31 December 2016	<u>14,113,487</u>	<u>187,840,247</u>	<u>315,057</u>	<u>(99,211,108)</u>	<u>103,057,683</u>	-	<u>103,057,683</u>
Balance at 1 <sup>st</sup> January 2017	<u>14,113,487</u>	<u>187,840,247</u>	<u>315,057</u>	<u>(99,211,108)</u>	<u>103,057,683</u>	-	<u>103,057,683</u>
Comprehensive income							
Profit for the year	-	-	-	<u>5,046,824</u>	<u>5,046,824</u>	-	<u>5,046,824</u>
Other comprehensive income							
Transfer of realised losses on disposal of available for sale financial asset (Note 29)	-	-	<u>(275,929)</u>	-	<u>(275,929)</u>	-	<u>(275,929)</u>
Revaluation of available for sale financial assets (Note 29)	-	-	<u>8,368,905</u>	-	<u>8,368,905</u>	-	<u>8,368,905</u>
Comprehensive gain for the year 2017	-	-	<u>8,092,976</u>	<u>5,046,824</u>	<u>13,139,800</u>	-	<u>13,139,800</u>
Share premium reduction (Note 28)	-	<u>(99,285,543)</u>	-	<u>99,285,543</u>	-	-	-
Balance as at 31 December 2017	<u>14,113,487</u>	<u>88,554,704</u>	<u>8,408,033</u>	<u>5,121,259</u>	<u>116,197,483</u>	-	<u>116,197,483</u>

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

The notes on pages 22 to 89 are an integral part of these consolidated financial statements.



## Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Note	2017 €	2016 €
<b>Cash flows from operating activities</b>			
Profit/ (loss) before tax			
Adjustments for:		6.981.465	(9.115.447)
Depreciation of property, plant and equipment, and amortisation of intangible assets			
(Gain)/ Loss from disposal of debt securities	10	752.076	594.966
Gain on disposal of financial assets at fair value through profit or loss		(942.853)	501.573
Impairment of property, plant & equipment and other impairments		(1.242.371)	-
Loss/ (gain) from disposal of financial assets at fair value through profit and loss		217.354	756.970
Gain from disposal of investment properties	8	898	(61.300)
Other income	8	(61.261)	-
	8	(2.135.128)	(511.046)
Changes in:		3.570.180	(7.834.284)
Loans and other advances to customers			
Deposits from and amounts due to other banks and other customer accounts	17	9.428.029	52.384.806
Decrease/ (increase) in mandatory deposits with the Central Bank of Cyprus	24,25	30.979.678	114.679.180
Other assets	14	18.253.621	(20.412.350)
Net position in derivative financial instruments	23	(1.491.222)	1.320.732
Other liabilities	32	(41.115)	852.776
<b>Cash generated from operations</b>	27	<u>7.213.633</u>	<u>2.195.645</u>
Tax Paid		<u>67.912.804</u>	<u>143.186.505</u>
<b>Net cash generated from / (used in) operations</b>		<u>67.912.804</u>	<u>143.186.505</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	21	(559.627)	(179.729)
Purchase of intangible assets	20	(1.034.631)	(112.814)
Disposal of financial assets at fair value through profit or loss	19	341.760	923.000
Acquisition of financial assets at fair value through profit or loss (Acquisitions) / disposal of financial assets available for sale	19	(15.810.292)	-
Disposal of investment properties	18	(132.487.102)	17.880.246
Disposal / (acquisition) of debt securities	22	958.760	-
Dividends received	16	44.288.759	(7.770.807)
<b>Net cash generated (used in)/ from from investing activities</b>	8	<u>760.711</u>	<u>777.709</u>
		<u>(103.541.662)</u>	<u>11.517.605</u>
<b>Cash flows from financing activities</b>			
Capital contribution from shareholders	28	-	40.000.003
<b>Net cash generated from financing activities</b>		-	40.000.003
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(35.628.858)	194.704.113
Cash and cash equivalents at beginning of year	30	404.094.097	209.389.984
Cash and cash equivalents at end of year	30	<u>368.465.239</u>	<u>404.094.097</u>

### Non-cash transactions from investing activities

During the year the Group acquired property for the amount of €33,5m (2016: €24,4m) (Note 22) after settlement agreements with customers for loan repayments. These are not included in cash flows from investing activities as they do not constitute cash flow movements.

The notes on pages 22 to 89 are an integral part of these consolidated financial statements.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

On 9 May 2018 the Board of Directors of the AstroBank Limited ("the Bank") authorised for issue the consolidated financial statements for the year ended 31 December 2017.

### 1. GENERAL INFORMATION

#### Country of incorporation

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

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.

#### Licence to carry out banking activities

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

#### Change of the Parent Bank's name

On 30<sup>th</sup> March 2017, the parent Bank changed its name from Piraeus Bank (Cyprus) Limited to AstroBank Limited.

#### Principal activities

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Basis of preparation

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

As at the date of the approval of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain significant accounting estimates and requires Management to exercise its judgment in the process of applying the accounting

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Basis of preparation (continued)

policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

#### Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group as at and for the year ended 31 December 2017. 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:

- 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 rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including the contractual arrangement with the other vote holders, rights arising from other contractual arrangements, and the Group's voting and potential voting rights. The Group re-assesses whether or not it controls an investee if facts indicate that there are changes to any of the three elements of control.

Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal, respectively. 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. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The non-controlling interests are presented separately in the consolidated income statement and within equity from the Company owners' equity.

All intra-group balances and transactions and unrealised gains/losses on transactions between Group companies are eliminated on consolidation.

A change in the ownership interest and non-controlling interests of a subsidiary, without loss of control, is accounted for as a transaction between the owners, which affects equity. As a result, no goodwill arises nor any gain/loss is recognised in the consolidated income statement from such transactions. The foreign exchange differences which relate to the share of non-controlling interests being sold/acquired are reclassified between the foreign currency reserve and non-controlling interests.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Basis of preparation (continued)

#### Changes in accounting estimates

During the year ended 31 December 2017 various changes have occurred with regards to the assumptions adopted for the calculation of provisions for loans and advances which can be regarded as a change in accounting estimates. The change in accounting estimates has an effect in the current period and is expected to have an effect in future periods. The Management considered it impractical to calculate the effect of such changes in the consolidated financial statements.

#### Changes in accounting policies and disclosures

Under IFRS 9, applicable from 1 January 2018 onwards, the presentation of gross loans will need to change to a contractual basis and suspended interest will henceforth be included in capital provisions. In view of this change, the Management of the Bank has decided to follow this presentation for financial reporting purposes as of 31 December 2017. The comparative figures of gross loans have also been adjusted.

Such adjustment did not have an impact on the profit for the year or equity of the Group for the periods presented or for prior periods.

Loans and advances	2017 - After change in accounting policy	2017 -Prior to change in accounting policy	2016 - After change in accounting policy	2016 -Prior to change in accounting policy
Gross loans and advances	723,612,814	658,004,361	766,868,638	709,249,323
Provisions for the impairment of loans and advances	210,093,289	144,484,836	210,427,135	152,807,820
Net loans and advances	513,519,525	513,519,525	556,441,503	556,441,503
Loans and advances to individuals	206,779,265	179,175,165	210,546,520	186,148,073
Loans and advances to large corporate entities and organisations	121,019,488	120,930,680	94,478,508	94,478,508
Loans and advances to small and medium enterprises	395,814,063	357,898,516	461,843,810	428,622,742
Loans and advances neither past due nor impaired	276,796,344	276,754,965	270,589,581	270,589,581
Loans and advances past due but not impaired	149,908,888	148,903,846	152,040,151	152,033,289
Impaired loans and advances	296,907,582	231,345,550	344,238,906	286,626,453
Loans and advances 90 days past due	280,962,167	215,761,216	316,402,937	259,162,960
Non-performing exposures	406,431,430	340,822,975	447,478,546	389,859,230
90+ Days Past Due Ratio	38,8%	32,8%	41,3%	36,5%
90+ Days Past Due Provision Coverage Ratio	74,8%	67,0%	66,5%	59,0%
NPE Ratio	56,2%	51,8%	58,4%	55,0%
NPE Provision Coverage Ratio	51,7%	42,4%	47,0%	39,2%

#### Loans and advances to customers neither past due nor impaired:

Credit rating category	2017 - After change in accounting policy	2017 -Prior to change in accounting policy	2016 - After change in accounting policy	2016 -Prior to change in accounting policy
Low risk	243,409,642	243,409,644	228,579,957	228,579,957
Medium risk	33,386,702	33,345,321	42,009,624	42,009,624
Total	276,796,344	276,754,965	270,589,581	270,589,581

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Basis of preparation (continued)

#### Changes in accounting policies and disclosures (continued)

#### Total past due but not impaired loans and advances to customers:

90 Days past due analysis	2017 - After change in accounting policy	2017 -Prior to change in accounting policy	2016 - After change in accounting policy	2016 -Prior to change in accounting policy
1-30 days past due	114,038,488	114,038,335	122,336,204	122,336,203
31-60 days past due	15,445,633	15,445,633	9,524,810	9,524,810
61-90 days past due	3,227,700	3,227,700	5,215,972	5,215,972
More than 90 days past due	17,197,067	17,192,178	14,963,165	14,956,304
<b>Total past due but not impaired loans and advances</b>	<b>149,908,888</b>	<b>149,903,846</b>	<b>152,040,151</b>	<b>152,033,289</b>

#### Impaired loans and advances to customers:

Impaired loans and advances	2017 - After change in accounting policy	2017 -Prior to change in accounting policy	2016 - After change in accounting policy	2016 -Prior to change in accounting policy
Individuals	100,148,506	72,549,447	111,306,203	86,908,695
Large entities & organisations	15,867,866	15,779,080	-	-
Small and medium enterprises	180,891,190	143,017,023	232,932,703	199,717,758
<b>Total</b>	<b>296,907,562</b>	<b>231,345,550</b>	<b>344,238,906</b>	<b>286,626,453</b>

#### Going Concern

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

The conditions that existed during 2017 and the developments up to the date of approval of these Consolidated Financial Statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and of the Group.

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

- On 31 December 2017 the Bank maintained healthy liquidity levels, with a liquidity coverage ratio of 323%;
- On 31 December 2017 the Bank's euro liquidity ratio was 36,5% and the foreign currency liquidity ratio was 99,3%, well above the Central Bank of Cyprus regulatory minima being 18% and 50% respectively;
- The increasing level of Group customer deposits (increase of €30,7m during 2017);
- On 31 December 2017 the Bank maintained a capital adequacy ratio at 17,0%;
- The IFRS 9 impact on a transitional and on a fully phased-in basis, after the period of transition is complete, is expected to be manageable and within the Group's capital plan;
- The significant reduction in Non-Performing exposures (NPEs), which have decreased by 9,2% during 2017 and totalled €406.431.430 at 31 December 2017 and the increase of provisions coverage to 51,7% compared to 47,0% at 31 December 2016;
- The significant reduction of loans in arrears for more than 90 days (90+ DPD) by 11,2% during 2017 to €280.962.187 at 31 December 2017 and the increase of provisions coverage to 74,8% compared to 66,5% at 31 December 2016;
- The regular monitoring of the performance of the Group against business plans and targets;
- The diversity as well as the improving credit rating of the liquid assets held;

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Basis of preparation (continued)

#### Going concern (continued)

- The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In April 2018, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB+ from BB with positive outlook. In July 2017, Moody's Investors Service upgraded the long term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.

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

#### Adoption of new and revised IFRSs

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however the Group has not early adopted the new standards in preparing these consolidated financial statements.

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

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

##### Amendments

- Disclosure initiative (Amendments to IAS 7) (effective for the periods beginning on or after 1 January 2017)
- Recognition of deferred tax assets for unrealised Losses (Amendments to IAS 12) (effective for the periods beginning on or after 1 January 2017)
- Annual improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 12) (effective for the periods beginning on or after 1 January 2017)

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

##### New standards

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15, Revenue from Contracts with Customers including amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018)
- IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019)
- Amendments to IAS 40 – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018)
- Annual improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 1 and IAS 28) (effective for annual periods beginning on or after 1 January 2018)
- IFRIC 22 foreign currency transactions and advance consideration (effective for annual periods beginning on or after 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)
- Prepayment features with negative compensation – amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019)

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

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

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

#### New standards (continued)

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

#### IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group will apply IFRS 15 on 1 January 2018. The Group has performed an assessment and does not expect this standard to have a material impact on its results and financial position.

#### IFRS 15 Revenue from contracts with customers (clarifications)

The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from contracts with customers, particularly the accounting of identifying performance obligations amending the wording of the separately identifiable principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Group will apply these clarifications on 1 January 2018. The Group has performed an assessment and does not expect these clarifications to have a material impact on its results and financial position.

#### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (IFRS 9) replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group will apply IFRS 9 on 1 January 2018.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

#### Impact of IFRS 9

The Group's IFRS 9 preliminary impact on transition, is primarily driven by credit impairment provisions. The new accounting processes, internal controls, governance framework, judgements and estimation techniques will continue to be refined and undergo validation.

The actual impact of adopting IFRS 9 on 1 January may change until the Group finalises the calibration and testing of the statistical models used to calculate the expected credit losses.

The impact on provisions of loans and advances to customers measured at amortised cost is approximately €6,0 million or an increase of 2,9% on provisions calculated in accordance with IAS 39 with a corresponding reduction in shareholders' equity.

The expected credit loss recognised on the Bank's bond portfolio is estimated to be €0,7 million of which the reduction on shareholders' equity is €0,2 million.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial Instruments (continued)

##### *Transition*

The classification, measurement and impairment requirements are applied retrospectively by adjusting the balance sheet at the date of initial application, and as permitted by IFRS 9 the Group will not restate comparative information for prior periods. The impact on the implementation date, 1 January 2018, is therefore recognised through equity rather than the consolidated income statement.

##### *Impact on capital planning*

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. From the date of initial application of IFRS 9 and for five years the amount of the difference in provisions that will result from the transition to the new IFRS 9 in relation to the provisions that have been recognised at 31 December 2017 in accordance with IAS 39 will be added to the capital ratios. 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.

##### *Classification and measurement*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at and fair value through profit or loss:

- 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.

A financial asset is measured at FVOCI only if it meets both the following conditions and is not designated as at fair value through profit or loss:

- 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 rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value through OCI. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial Instruments (continued)

##### Classification and measurement (continued)

##### *Business model assessment*

The objective of the Group's business model is not based on Management's intentions with respect to an individual instrument, but rather is determined at a higher level of aggregation. The assessment needs to reflect the way that a Group manages its business. A single reporting entity may have more than one business model for managing its financial instruments.

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice; including whether Management's strategy focuses on earning contractual interest revenue, maintaining particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through sales of assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model ( and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading are those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows not held both to collect contractual cash flows and to sell financial assets.

##### *Assessment whether contractual cash flows are solely payments of principal and interest*

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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not met this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- 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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial instruments (continued)

##### Classification and measurement (continued)

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Trading assets and derivative assets, which are classified as held for trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9
- Held to maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS9
- Debt investment securities that are classified as available for sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL depending on the particular circumstances
- Loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9
- The majority of the equity investment securities that are classified as available for sale under IAS 39 will be measured at FVTPL under IFRS 9. However, some of these equity investment securities are held for long term strategic purposes and will be designated as at FVOCI on 1 January 2018.

##### **Impairment – financial assets, loan commitments and financial guarantee contracts**

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward looking "expected credit loss model". This will require considerable judgement over how changes in economic factors affect expected credit losses (ECLs), which will be 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 debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

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

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12- month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12- month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

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

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

Financial assets for which there is objective evidence of impairment are considered to be in default or credit impaired and are considered to be Stage 3.

	€
Stage 1	249,2
Stage 2	109,9
Stage 3	406,9
<b>Total</b>	<b>766,0</b>
On balance sheet	723,6
Off balance sheet	42,4

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial Instruments (continued)

#### Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have a low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade"; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward looking information into the measurement of ECLs.
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

#### Definition of default

Exposures that meet the non-performing exposure (NPE) definition as per EBA standards are considered to be in default and hence credit-impaired and are considered to be in Stage 3 and have ECL calculated on a lifetime basis.

According to the European Banking Authority (EBA) standards and European Central Bank (ECB) Guidance to Banks on NPE (which was published in March 2017), NPEs 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;
- Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy;
- Exposures which are more than 90 days past due;
- Performing forbore exposures under probation for which additional forbearance measures are extended;
- Performing forbore exposures under probation that present more than 30 days past due within the probation period.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial instruments (continued)

##### Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

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:

- 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.
- 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 exist according to the facility type).

##### *Significant increase in credit risk*

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

IFRS 9 requires that, in the event of a significant increase in credit risk, since initial recognition, the calculation basis of the loss allowance would change from 12 month ECLs to lifetime ECLs.

##### *Determining whether credit risk has increased significantly*

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

The Group has established a framework that incorporates both quantitative and qualitative information 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 will vary by portfolio and will include a backstop based on delinquency and forbearance measures.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

##### *Generating the term structure of PD*

The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial Instruments (continued)

#### Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

#### Generating the term structure of PD (continued)

forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, housing price indexation and unemployment.

#### Inputs into measurement of ECLs

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

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

These parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

EAD represents the expected exposure in the event of a default. 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. 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.

LGD is an estimate of the loss from a transaction given that a default occurs. Lifetime LGDs are defined as a collection of LGD estimates applicable to different future periods.

The structure of the LGD model considers the following:

- **Curing:** the probability of cure model was derived based on historical observations
- **Non-curing is further broken down into:**
  - I. **Collateral realisation:** the collateralised part of EAD of a defaulted account could be recovered through collateral realisation. The process was considered to be either voluntary (amicable sale, debt for asset swap) or forced sale or through foreclosure and receivership.
  - II. **Cash recovery:** calculated based on observed cash flows.

PD is calculated based on statistical rating models calculated per segment level and taking into consideration each individual's exposure rating and forward looking information based on macroeconomic inputs.

ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

#### Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Group will formulate a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on projections by economic experts and consideration of a variety of external actual and forecast information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most-likely outcome and be aligned with information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include unemployment rates, housing price indices and GDP

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### IFRS 9 Financial Instruments (continued)

#### iii. Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

##### *Forward-looking information (continued)*

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

##### **Classification – Financial liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

##### **Derecognition and contract modification**

The derecognition requirements of IAS 39 were carried forward into the IFRS 9. The contractual terms of a loan may be modified following 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. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term.

A derecognition 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.

Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. The Group considers a series of factors of both qualitative and quantitative nature when making such judgements on a modification in the contractual cash flows. When a substantial modification in the original financial asset is deemed to exist, then the original financial asset is derecognised and a new financial asset is recognised.

In the case of a new loan an assessment is performed on whether it should be classified as Stage 1 or Purchased/originated credit impaired (POCI).

##### **Write off**

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

Write off refers to both contractual and non-contractual write offs.

##### **Interest revenue recognition**

For loans considered to be Stage 1 and 2 and are not POCI, interest revenue is calculated on the gross carrying amount using the Original Effective Interest Rate (OEIR).

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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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.

#### Turnover

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

#### Interest income and expense

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

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

#### Fee and commission income and expense

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

#### Dividend income

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

#### 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'.

#### Gains from the disposal of investment property

Net gains on disposal of investment property are recognised in the consolidated income statement when the buyer accepts ownership of the property and the transfer of risks and rewards to the buyer is completed.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

#### Special Levy

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

#### Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. 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. 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. Acquisition related costs are expensed as incurred and included in other operating expenses.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Business combinations (continued)

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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.

#### 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.

#### Financial assets

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

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

#### A. Financial assets at fair value through profit or loss

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

##### *Financial assets 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 statement of financial position at fair value. Changes in the fair value are recognised in 'Net gains from other financial instruments at FVTPL' in the consolidated income statement. Interest income is included in the corresponding captions in the consolidated income statement according to the terms of the relevant contract.

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

##### *Financial assets designated as at fair value through profit or loss*

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

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

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

#### B. Available for sale financial assets

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Financial assets (continued)

##### B. Available for sale financial assets(continued)

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

Unrealised gains or losses from the variation in fair value of available for sale financial assets are included in a special reserve in equity. On the sale of available for sale financial assets the relevant accumulated gains/losses are transferred from the reserve to the 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.

##### C. Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The 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 Bank are initially recognised at fair value, plus any incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. If there is objective evidence that the Bank will not be able to collect all or part of the amount due, according to the original term of the loan, a provision for impairment is established. The amount of the accumulated provision is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan.

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

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Financial assets (continued)

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

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

- I. Significant financial difficulties faced by the debtor.
- II. A breach of the terms of the loan contract (i.e. default or delinquency in interest or principal payments).
- III. The Group, for financial or legal reasons relating to the debtor's financial difficulties, granting the debtor a concession that the Group would not consider under different circumstances.
- IV. It is probable that the debtor will enter bankruptcy or financial reorganisation.
- V. Observable data indicating that, from the date of initial recognition of those loans, there is a measurable decrease in the estimated future cash flows from a group of loans, although the decrease cannot yet be identified by examining each individual loan in the group separately, including:
  - Adverse changes in the payment status on the balance of the group of loans (e.g. increase in the number of past due payments due to sector problems), or
  - Economic conditions on a national or local scale that correlate with delays in the payments of loans within the group of loans (e.g. increase in the unemployment rate within a geographical area, decrease in the value of property placed as collateral in the same geographical area, or unfavourable changes in the operating conditions of a sector, which affect the debtors included in a specific group).

For the purposes of an impairment assessment on a collective basis, advances are grouped based on their credit risk characteristics. The Bank adopts a standardised approach for collective impairment by using probabilities of default based on historical data and past experience. This methodology is subject to uncertainty due to the subjective grouping of loans and advances into portfolios with similar credit risk characteristics. In addition, the historical information is supplemented by estimates from the Management, in order for the past experience to be representative of current economic conditions. When there are changes in the economic or supervisory environment or changes in customer 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### C. Loans and other receivables (continued)

During the year ended 31 December 2017, the Management of the Bank has decided to proceed with a change in the Bank's accounting policy with respect to the presentation of interest suspended on credit impaired loans. As at 31 December 2017 the gross loans of the Bank will be presented on a contractual basis and suspended interest will be included in capital provisions ((refer to note 2 for more details- changes in accounting policies disclosure).

#### Goodwill

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

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

#### Software and other intangible assets

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

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

The acquisition cost of software which will generate future economic benefits for the 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 balance sheet date.

#### Impairment of non-financial assets

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

#### Property, plant and equipment

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

# Notes to the Consolidated Financial Statements for the year ended 31 December 2017

ASTROBANK GROUP

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

### Property, plant and equipment (continued)

Items are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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, plant and equipment is calculated using the straight-line method, over their estimated useful lives. The annual depreciation rates are as follows:

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

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

### Investment property

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

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

When the use of the property changes such that it is reclassified as property and equipment, its fair value at the date of 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 are 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 cash flow statement.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Cash and cash equivalents

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

#### Financial liabilities

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

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

#### Due to Banks and customers

Due to Banks and due to customers are recognised initially at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the 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 of restructuring expenses 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 number of similar obligations, the probability that an outflow will be required to settle the obligation is determined by taking into consideration the classification of the obligations as a total. The provision is included even if the probability of an outflow due to an obligation included within the total obligations is small.

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

#### Financial guarantee contracts

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

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

When these commitments/contingencies are crystallised creating a liability to the Group, the relating impact is recognized in the consolidated income statement.

#### Employee Benefits

The Group operates various pension plans. The Group operates a defined contributions pension plan and in the past it operated a defined benefits pension plan which was terminated in 2012. A defined contributions plan is a pension plan under which the Bank and its employees pay fixed contributions into a separate fund. The 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.

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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Employee Benefits (continued)

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

#### Share capital

- a) Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium.
- b) Share premium is the difference between the fair value of the consideration receivable for the issue of the shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.
- c) The dividend distribution to the Bank's ordinary shareholders is recognised as a liability in the period in which the dividend is approved by the Annual General Meeting of the Bank's shareholders or, in the case of an interim dividend, by the Bank's Board of Directors.

#### Related party transactions

Related parties include: (a) members of the Group's Board of Directors and key management personnel of the Group, (b) close family members (spouses, children etc.) and financial dependants of the Board of Directors' members and key management personnel. Transactions of a similar nature are disclosed collectively. All related party transactions are based on ordinary business practices and are carried out according to the approved credit procedures and policies of the Group.

#### Trade payables

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

#### 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.

#### Comparatives

Comparatives have been adjusted to reflect the change in the presentation gross loans. In prior periods the gross loans were presented on a net of suspension basis which is now changed to gross of suspension basis.

Such adjustment did not have an impact on the profit for the year or equity of the Group.

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

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of 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 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Critical accounting estimates and assumptions

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

The Bank reviews loans and advances to customers to assess whether a provision for impairment should be recorded in the 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 collateral are indexed from the valuation report date to the impairment test reference date, using the latest available published property price indices (CBC index for houses, apartments and land, RICS indices for commercial properties and shops). For all real estate collateral, 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 (2016: 10% to 30%). The time to liquidation of real estate collateral, other than those for which an explicit date was assumed based on the facts of the case, is 6 years (2016: 6 years). Selling costs are assumed to be on average 4% (2016: 5%) of the recoverable amount of real estate collateral 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 Bank's position relative to other claimants and the likely cost and duration of the work-out process). Advances that have been assessed on an individual debtor level and for which no objective evidence of impairment exists, significant or otherwise, are grouped with non-significant advances and are classified in groups with similar credit risk characteristics in order to be collectively assessed for losses incurred but not yet reported.

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

In a scenario where the open market value of the real estate collateral used in the individual and collective assessments is reduced by 10%, the effect on the consolidated income statement will be an additional impairment provision charge of €10m (31 December 2016: €14,1m).

##### ***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. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### *Fair value of bonds, shares and other financial instruments (continued)*

More information on changes in the fair value of bonds, shares and other financial instruments is disclosed in Notes 18, 19 and 34.

#### *Deferred tax asset*

Deferred tax assets 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, together with future tax planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made resulting in a material adjustment to the carrying amount of deferred tax assets.

If the expected income over the next three years according to the business plan of the Group was reduced by 10% (with all remaining factors remaining the same – ceteris paribus) the recoverable balance of the deferred tax asset as at 31 December 2017 would be reduced by €17 thousand.

#### *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.

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

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

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

In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement and do not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which 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.

If the estimated value per square meter used in the calculations for the building held for own use was reduced by 15% the value of the building would be €3,1m (2016: €3,1m) lower.

If the estimated value per square meter used in the calculations for investment properties was reduced by 15% the value of the building would have been €9,7m (2016: €4,7m) lower.

More information on inputs used is disclosed in Notes 21 and 22.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 4. INTEREST INCOME

	2017	2016
	€	€
Interest on loans and other advances to customers	15.811.616	17.159.053
Interest on impaired loans and advances to customers	10.803.196	15.664.285
Interest on placements with Central Bank and other banks	(683.506)	(692.553)
Interest on debt securities	2.531.774	651.085
Interest on trading of fair value through profit or loss financial assets	103.794	-
Interest on available for sale financial assets	240.454	(83.137)
Interest on swap deals	1.717.418	1.310.988
Other interest income	6	14.477
<b>Total</b>	<b><u>30.524.752</u></b>	<b><u>34.024.198</u></b>

### 5. INTEREST EXPENSE

	2017	2016
	€	€
Interest on deposits from customers	8.542.361	10.649.266
Interest due to other banks	60.855	4.371
<b>Total</b>	<b><u>8.603.216</u></b>	<b><u>10.653.637</u></b>

### 6. FEE AND COMMISSION INCOME

	2017	2016
	€	€
Fees and commissions from commercial banking	11.225.009	9.225.341
Other fees and commissions	272.300	190.950
<b>Total</b>	<b><u>11.497.309</u></b>	<b><u>9.416.291</u></b>

### 7. FEE AND COMMISSION EXPENSE

	2017	2016
	€	€
Fees and commissions from commercial banking	1.753.737	1.853.239
Other fees and commissions	93.034	53.698
<b>Total</b>	<b><u>1.846.771</u></b>	<b><u>1.906.937</u></b>

### 8. OTHER INCOME

	2017	2016
	€	€
Gain / (loss) on revaluation of investment properties (Note 22)	667.360	(1.000.160)
Gain on revaluation of other investments at fair value through profit or loss (Note 19)	707.057	733.497
Gains from foreign exchange operations	1.877.673	1.307.236
Dividend from available for sale financial assets (Note 18)	760.711	777.709
Gain from disposal of investment properties	61.261	-
(Loss)/ gain from disposal of financial asset at fair value through profit or loss (Note 19)	(898)	61.300
Other income	71.004	80.312
<b>Total</b>	<b><u>4.144.168</u></b>	<b><u>1.959.894</u></b>

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

**9. STAFF EXPENSES**

	2017	2016
	€	€
Salaries and employer's contributions	15.563.406	14.637.887
Social Insurance contributions	1.013.202	972.510
Retirement benefit cost for defined contributions plans	1.194.844	1.204.914
Other staff expenses	<u>173.723</u>	<u>224.765</u>
<b>Total</b>	<b><u>17.944.975</u></b>	<b><u>17.040.076</u></b>
<i>Average number of employees</i>	380	353

Based on the agreement signed on March 17<sup>th</sup> 2014 between the Cyprus Bankers Employer's Association and the Union of Bank Employees Cyprus regarding the three years 2014-2016, the Bank proceeded with a reduction in the monthly contribution to the Provident Fund from 14% to 9% for the years 2014 and 2015, 9,5% for 2016 and to 9,0% for 2017.

**10. DEPRECIATION AND AMORTISATION**

	2017	2016
	€	€
Depreciation of property, plant and equipment (Note 21)	463.781	454.107
Amortisation of intangible assets (Note 20)	<u>288.295</u>	<u>140.859</u>
<b>Total</b>	<b><u>752.076</u></b>	<b><u>594.966</u></b>

**11. OPERATING EXPENSES – Analysis by nature**

	2017	2016
	€	€
Sales and marketing expenses	1.268.346	697.557
Legal expenses, supervisory fees and other consultancy fees	2.428.655	1.294.673
Auditors' remuneration	126.759	122.625
Buildings, software and other assets' maintenance cost	1.724.932	1.054.101
Operating lease rentals	737.446	668.484
Travelling expenses	458.943	209.637
Printing and stationery	381.130	247.837
Telecommunication expenses	300.849	259.386
Special levy (1)	1.686.908	1.514.402
Other operating expenses	<u>1.911.125</u>	<u>1.535.120</u>
<b>Total</b>	<b><u>11.025.093</u></b>	<b><u>7.603.822</u></b>

The "Legal expenses and other consultancy fees" include fees of €220.578 (2016: €48.976) for tax consultancy services and €84.732 (2016: €19.046) for other assurance services charged by the Group's statutory audit firm.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 12. OTHER EXPENSES

	2017 €	2016 €
Provisions for impairments of other receivables	-	25.539
Provisions for impairments of off balance sheet receivables	-	11.148
	<u>-</u>	<u>36.687</u>

### 13. INCOME TAX

	2017 €	2016 €
Current year tax		
Corporation Tax	9.681	111.756
Deferred tax (Note 26)	1.924.960	(2.142.624)
Total current year tax	<u>1.934.641</u>	<u>(2.030.868)</u>

None of the items in the consolidated statement of other comprehensive income had an impact on the tax charge for 2017 or 2016.

The Group is subject to corporation tax on taxable profits at the rate of 12,5% (2016: 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.

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

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

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

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

	2017 €	2016 €
Profit/ (loss) before tax	6.981.465	(9.115.447)
Tax calculated at the applicable tax rates	872.683	(1.139.431)
Tax effect of expenses and other losses not deductible for tax purposes	436.714	576.030
Tax effect of income and deductions not subject to tax	(1.006.401)	(962.729)
Other tax adjustment	(188.568)	-
(Tax losses utilised)/ tax losses to be carried forward	<u>(106.747)</u>	<u>1.637.886</u>
Total corporation tax	<u>9.681</u>	<u>111.756</u>

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

**14. CASH AND BALANCES WITH CENTRAL BANK**

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

	2017	2016
Cash (Note 30)	€	€
Balances with Central Bank of Cyprus (Note 30)	9.730.468	8.634.370
Cheques to be cleared (Note 30)	304.996.611	305.996.600
Other deposits with the Central Bank of Cyprus in a minimum reserve account	2.108.869	2.348.503
Mandatory deposits with the Central Bank of Cyprus in a minimum reserve account	-	18.324.778
<b>Total</b>	<u>10.096.191</u>	<u>10.025.034</u>
	<u>326.932.139</u>	<u>345.329.285</u>

**15. PLACEMENTS WITH OTHER BANKS**

	2017	2016
Bank accounts (Note 30)	€	€
Placements with other banks (Note 30)	24.818.508	36.113.413
<b>Total</b>	<u>26.810.783</u>	<u>51.001.211</u>
Current	<u>51.629.291</u>	<u>87.114.624</u>
Non-current	51.629.291	87.114.624
<b>Total</b>	<u>51.629.291</u>	<u>87.114.624</u>

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

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

**16. RECEIVABLES FROM DEBT SECURITIES**

	2017	2016
Receivables from debt securities	€	€
<b>Total</b>	-	<u>44.288.759</u>
	-	<u>44.288.759</u>

On 23 November 2017 it was decided by the Assets and Liabilities of the Bank that the Bank had no positive intention to hold to maturity the Cyprus government bonds with maturity in 2023 as they considered that it is more appropriate to classify these investments as available for sale. As a result all debt securities classified as held to maturity were reclassified to the available for sale category at fair value. As a result of the reclassification to the available for sale category, a fair value gain of €8.888.030 was recognised on the Group's consolidated statement of other comprehensive income.

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

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

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

17. LOANS AND OTHER ADVANCES TO CUSTOMERS

	2017 €	2016 €
Advances to individuals	206.779.265	210.546.520
Advances to corporate entities:		
Large corporate entities and organisations	121.019.486	94.478.508
Small and medium size enterprises (SMEs)	<u>395.814.063</u>	<u>461.843.610</u>
Advances to customers – gross	<u>723.612.814</u>	<u>766.868.638</u>
Provisions for the impairment of loans and advances to customers	<u>(210.093.289)</u>	<u>(210.427.135)</u>
Advances to customers – net	<u>513.519.525</u>	<u>556.441.503</u>
Current	168.029.452	205.838.884
Non-current	<u>345.490.073</u>	<u>350.602.619</u>
Total	<u>513.519.525</u>	<u>556.441.503</u>

Provision for impairment of loans and advances to customers

The following is an analysis of the movement of the provision for impairment of loans and advances to customers:

	2017 - After change in accounting policy €	2017 - Prior to change in accounting policy €	2016 - After change in accounting policy €	2016 - Prior to change in accounting policy €
Opening balance	210.427.135	152.807.820	190.290.307	147.720.308
Provision recoveries	(25.805.196)	(25.805.196)	(52.196.327)	(52.196.327)
Write-offs	(20.424.030)	(13.434.260)	(15.883.867)	(11.189.902)
Provision charge for the year	28.539.379	28.539.379	67.064.584	67.064.584
Other adjustments	18.333.030	3.354.122	21.056.671	1.313.390
Foreign exchange differences	<u>(977.029)</u>	<u>(977.029)</u>	<u>95.767</u>	<u>95.767</u>
Balance as at 31 December	<u>210.093.289</u>	<u>144.484.836</u>	<u>210.427.135</u>	<u>152.807.820</u>
Individual impairment	<u>198.898.522</u>	<u>133.290.067</u>	<u>198.058.389</u>	<u>140.439.074</u>
Collective impairment	<u>11.194.767</u>	<u>11.194.769</u>	<u>12.368.746</u>	<u>12.368.746</u>

The charge in the consolidated income statement relating to "Provisions for impairment on loans and advances" included the amount of credit €1.353.728 (2016: debit €377.055) which relates to advances written off for which no provision was created, or for which the provision was not of equal amount to the amount written off and €399.952 (2016: €175.850 provision charge) which relates to release of provision on off balance sheet items. As a result the movement in "Provision for impairment of advances" in the consolidated balance sheet differs from the charge in the consolidated income statement.

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

**18. AVAILABLE FOR SALE FINANCIAL ASSETS**

	2017 €	2016 €
Investments in bonds (1)	214.654.860	74.074.782
Investments in equity securities (2)	<u>12.204.149</u>	<u>12.204.149</u>
	<b><u>226.859.009</u></b>	<b><u>86.278.931</u></b>
Assets listed in the Cyprus Stock Exchange (2)	11.912.438	11.912.438
Assets listed in Foreign Stock Exchanges (1)	214.693.989	74.113.911
Non-listed assets	<u>252.582</u>	<u>252.582</u>
	<b><u>226.859.009</u></b>	<b><u>86.278.931</u></b>
Current	68.920.829	69.069.945
Non-current	<u>157.938.180</u>	<u>17.208.986</u>
	<b><u>226.859.009</u></b>	<b><u>86.278.931</u></b>

(1) Investment in bonds owned by the Group comprised of government bonds issued by European Union countries including Cyprus. All the bonds are traded in active markets (Note 34) and are valued based on current market value as quoted in the stock exchange they are listed on. The revaluation gain as at 31 December 2017 was €8.368.905 (2016: €177.195) (Note 29).

(2) 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 adopted at the end of 2017 the valuation conducted by the independent firm KPMG, using alternative valuation methods.

Under the 'Agreement for the Sale and Purchase of Shares in Piraeus Bank (Cyprus) Ltd' between Piraeus Bank S.A. and Holding M. Sehnaoui SAL (HMS) which was completed on 28th December 2016, Piraeus Bank S.A. is committed to either find, within 180 days after Completion, a buyer for at least 50% of the 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 2018. As a result 50% of the investment in ATL is classified as a current asset in the analysis above.

During the year the Group received dividends and interest from available for sale financial assets amounting to €760.711 and €2.772.228 (credit) respectively (2016: €777.709 and €83.137 (debit) respectively).

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

	2017 €	2016 €
Trading debt securities (1)	15.810.292	-
Other investments at fair value through profit or loss (2)	<u>12.225.044</u>	<u>11.859.747</u>
	<b><u>28.035.336</u></b>	<b><u>11.859.747</u></b>
<b>Movement analysis:</b>		
Opening balance	11.859.747	12.049.250
Additions	15.810.292	-
Disposals	(341.760)	(923.000)
Profit from changes in fair value (Note 8)	<u>707.057</u>	<u>733.497</u>
	<b><u>28.035.336</u></b>	<b><u>11.859.747</u></b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

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

(2) Other investments classified as "Financial assets at fair value through profit or loss" comprise of a financing arrangement relating to property obtained 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 has the right to repurchase any property at the initial price plus any cost to the Group up to the date of the repurchase. These financial assets have been classified as financial assets at fair value through profit or loss on initial recognition.

During the year ended 31 December 2017, the Group disposed part of the property obtained under the above agreement amounting to €341.760 at a loss of €898 recognised in the consolidated income statement (Note 8).

An independent valuation of the property was performed by external, qualified and independent valuers to determine the fair value as at 31 December 2017. The revaluation gain of €707.057 was credited to the consolidated income statement (Note 8).

#### Risk of fluctuations in property prices

The credit risk arising from "other investments at fair value through profit or loss" is considered to be zero as at the balance sheet date, since the measurement of these financial assets at their fair value is connected to the market values of the property obtained by the Group, based on the terms of the transaction with the customer. The fair value of the financial assets at fair value through profit or loss as at 31 December 2017 is approximately the same with their carrying value. The risk relating to the prices of the property that the Group owns, arises from possible negative movements in the current 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 (2016: decrease by €593 thousand).

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

#### Risk of fluctuations in bond prices

As at 31 December 2017 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 2017 would result in a decrease/ increase in net equity by €791 thousand (2016: €NIL).

The analysis of the credit risk and related credit rating of bonds, as performed by independent rating agencies, is presented in Note 34.



Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

20. INTANGIBLE ASSETS

	Computer Software €	Total €
<b>1 January 2016</b>		
Cost		
Accumulated amortisation	7.692.341	7.692.341
Net book value	<u>(7.474.196)</u>	<u>(7.474.196)</u>
	<u>218.145</u>	<u>218.145</u>
<b>Year ended 31 December 2016</b>		
Net book value at beginning of year	218.145	218.145
Additions	112.814	112.814
Amortisation (Note 10)	(140.859)	(140.859)
Disposals / write offs – Cost	(1.313)	(1.313)
Disposals / write offs – Accumulated amortisation	657	657
Net book value at end of year 31 December 2016 / 1 January 2017	<u>189.444</u>	<u>189.444</u>
Cost		
Accumulated amortisation	7.803.842	7.803.842
Net book value	<u>(7.614.398)</u>	<u>(7.614.398)</u>
	<u>189.444</u>	<u>189.444</u>
<b>Year ended 31 December 2017</b>		
Net book value at beginning of year	189.444	189.444
Additions	1.034.631	1.034.631
Amortisation (Note 10)	(288.295)	(288.295)
Net book value at 31 December 2017	<u>935.780</u>	<u>935.780</u>
Cost		
Accumulated amortisation	8.838.473	8.838.473
Net book value	<u>(7.902.693)</u>	<u>(7.902.693)</u>
	<u>935.780</u>	<u>935.780</u>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 21. PROPERTY, PLANT & EQUIPMENT

	Property €	Plant and equipment €	Total €
<b>1 January 2016</b>			
Cost or valuation	21.707.500	6.979.582	28.687.082
Accumulated depreciation	-	(3.386.802)	(3.386.802)
<b>Net book value</b>	<b><u>21.707.500</u></b>	<b><u>3.592.780</u></b>	<b><u>25.300.280</u></b>
<b>Year ended 31 December 2016</b>			
Net book value at beginning of year	21.707.500	3.592.780	25.300.280
Additions	-	179.729	179.729
Disposals / write offs – cost	-	(287.614)	(287.614)
Disposals / write offs – accumulated depreciation	-	287.613	287.613
Depreciation (Note 10)	(142.350)	(311.757)	(454.107)
Property revaluation – loss	(1.082.500)	-	(1.082.500)
Property revaluation – accumulated depreciation	142.350	-	142.350
<b>Net book value at end of year</b>	<b><u>20.625.000</u></b>	<b><u>3.460.751</u></b>	<b><u>24.085.751</u></b>
<b>31 December 2016 / 1 January 2017</b>			
Cost or valuation	20.625.000	6.871.697	27.496.697
Accumulated depreciation	-	(3.410.946)	(3.410.946)
<b>Net book value</b>	<b><u>20.625.000</u></b>	<b><u>3.460.751</u></b>	<b><u>24.085.751</u></b>
<b>Year ended 31 December 2017</b>			
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 10)	(137.392)	(326.389)	(463.781)
Property revaluation – loss	(233.393)	-	(233.393)
Property revaluation – accumulated depreciation	137.392	-	137.392
<b>Net book value at end of year</b>	<b><u>20.625.000</u></b>	<b><u>3.460.092</u></b>	<b><u>24.085.092</u></b>
<b>31 December 2017</b>			
Cost or valuation	20.625.000	7.170.481	27.795.481
Accumulated depreciation	-	(3.710.389)	(3.710.389)
<b>Net book value</b>	<b><u>20.625.000</u></b>	<b><u>3.460.092</u></b>	<b><u>24.085.092</u></b>

Property includes land of €9.209 thousand (2016: €9.209 thousand) for which no depreciation is charged. The latest property revaluation was performed in January 2018. The fair value as at 31 December 2017 is expected to approximate to this value.

The policy of the Group is to carry out valuations of its property periodically (every 1-3 years). As a result of the economic conditions present in Cyprus and their impact on the real estate market, the Group performed revaluations in January 2018 and in November 2016. As a result, an impairment loss of €96 thousand (2016: €940 thousand) was recognised in the consolidated income statement.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

The carrying amount of the owned property based on cost less accumulated depreciation was €20.625.000 as at 31 December 2017 (2016: €20.625.000).

During the year ended 31 December 2017, plant and equipment with a net book value of €NIL (2016: €46.001) for which no provision had been made in prior years, was written off in the consolidated income statement.

#### 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 2017 and 2016. The loss on revaluation was charged to the consolidated income statement in accordance with the relevant accounting policy. The following table analyses the property, plant and equipment carried at fair value, by method of valuation. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted 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 2017 using:		
	Quoted prices in active markets for identical assets (Level 1) €	Significant other observable inputs (Level 2) €	Significant unobservable inputs (Level 3) €
<b>Recurring fair value measurements</b>			
Land and buildings			
– Office Buildings - Nicosia	—	—	<u>20.625.000</u>
	—	—	<u>20.625.000</u>

There were no transfers between levels during the year.

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**21. PROPERTY, PLANT & EQUIPMENT (continued)**

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

There were no transfers between levels during the year.

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

	Office buildings Nicosia	
	2017 €	2016 €
Opening balance	20.625.000	21.707.500
Additions	233.393	-
Transfers to plant and equipment	-	-
Depreciation charge	(137.392)	(142.350)
Losses recognised in profit and loss	-	-
Revaluation of property – accumulated depreciation	<u>(96.001)</u>	<u>(940.150)</u>
Closing balance	<u>20.625.000</u>	<u>20.625.000</u>

During the years 2017 and 2016, 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 2017 and 2016, the fair value of the land and buildings has been determined as the average value based on the valuations carried out by the companies Kikis Athinodorou & Associates Chartered Surveyors and Property Valuers, and Xenios Stephanou & Associates Property Consultants and Valuers.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

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

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

Description	Fair value at 31 December 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 €4.250m <sup>2</sup>	The higher the price per square metre, the higher the fair value
			Approximation of building construction	Price per square metre	Approximately €1.750m <sup>2</sup> for ground floor and other floors and €550µ <sup>2</sup> for basements	The higher the price per square metre, the higher the fair value
Description	Fair value at 31 December 2016 €	Valuation techniques	Unobservable inputs	Range of unobservable inputs (probability - weighted average)	Relationship of unobservable inputs to fair values	
Office building - Nicosia	20.625.000		Land cost	Price per square metre	Approximately €4.250m <sup>2</sup>	The higher the price per square metre, the higher the fair value
			Approximation of building construction	Price per square metre	Approximately €1.750m <sup>2</sup> for ground floor and other floors and €550µ <sup>2</sup> for basements	The higher the price per square metre, the higher the fair value

Sensitivity analysis is presented in Note 3.

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

22. INVESTMENT PROPERTIES

	2017 €	2016 €
1 January	31.527.490	8.177.650
Additions	33.493.949	24.350.000
Disposals	(958.760)	-
Net gain/ (loss) from changes in fair value (Note 8)	<u>667.360</u>	<u>(1.000.160)</u>
Closing balance	<u>64.730.039</u>	<u>31.527.490</u>

During the year ended 31 December 2017, the Group obtained property of a total amount of €33.494 thousand (2016: €24.350 thousand) after agreements with customers for settlement of their loans. Investment property comprises of land and buildings in different areas in Cyprus.

Fair value of investment property

An independent valuation of the Group's property was performed by external, qualified and independent valuers to determine the fair value as at 31 December 2017. The revaluation loss /gain was debited/credited to the consolidated income statement in accordance with the relevant accounting policy. The following table analyses the method of valuation of investment property carried at fair value. The different levels have been defined as follows:

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

	Fair value measurements at 31 December 2017 using:		
	Quoted prices in active markets for identical assets (Level 1) €	Significant other observable inputs (Level 2) €	Significant unobservable inputs (Level 3) €
<b>Recurring fair value measurements</b>			
Investment property	-	-	<u>64.730.039</u>
	-	-	<u>64.730.039</u>

There were no transfers between levels during the year.

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

ASTROBANK GROUP

22. INVESTMENT PROPERTIES (continued)

	Fair value measurements at 31 December 2016 using:		
	Quoted prices in active markets for identical assets (Level 1) €	Significant other observable inputs (Level 2) €	Significant unobservable inputs (Level 3) €
<b>Recurring fair value measurements</b>			
Investment property	-	-	31.527.490
	-	-	<u>31.527.490</u>

There were no transfers between levels during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	2017 €	2016 €
<b>Opening balance</b>		
Additions	31.527.490	8.177.650
Disposals	33.493.949	24.350.000
Net gain /(loss) from changes in fair value recognised in the consolidated income statement (Note 8)	(958.760)	-
<b>Closing balance</b>	<u>667.360</u>	<u>(1.000.160)</u>
	<u>64.730.039</u>	<u>31.527.490</u>

During the years 2017 and 2016, 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 2017, 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 2017, the equity would decrease/ increase by €8.496 thousand (2016: €4.138 thousand).

**Valuation processes of the Group**

On an annual basis, the Group engages external and qualified valuers to determine the fair value of the investment properties. As at 31 December 2017, the valuations were performed by the companies Xenios Stephanou & Associates, Philoktimatiki Public Limited, Kikis Athinodorou and Associates Limited, Polyviou Property Management, C. Pierides Property Serve Chartered Surveyors, Rick Gianni Valuation Surveyors LLC, Eleftheriou Property Consultants, Andys Telemachou Appraisal LLC and Roussos & Angelides Valuers and property consultants.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 22. INVESTMENT PROPERTIES (continued)

#### Information on fair value measurements using significant unobservable inputs (Level 3) 2017

Description	Fair value at 31 December 2017 €	Land surface in m <sup>2</sup>	Estimated fair value of land per m <sup>2</sup>	Building surface in m <sup>2</sup>	Estimated fair value of buildings per m <sup>2</sup>
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
Plot of land with building 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

#### 2016

Description	Fair value at 31 December 2016 €	Land surface in m <sup>2</sup>	Estimated fair value of land per m <sup>2</sup>	Building surface in m <sup>2</sup>	Estimated fair value of buildings per m <sup>2</sup>
Land with buildings Nicosia	10.519.000	357-8.650	€60 - €448	205 - 1.635	€1.087 - €1.255
Land with buildings Larnaca	2.644.260	1.041-11.706	€10 - €535	304-744	€333 - €628
Plot of land with building Limassol	3.650.000	2.913- 100.001	€4 - €775	1.566	€390
Land with buildings Paphos	14.714.230	512-29.000	€10 - €725	78-23.118	€292 - €2.451

#### 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.



Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

23. OTHER ASSETS

	2017	2016
	€	€
Prepaid expenses	876.459	492.877
Other receivables	<u>1.789.962</u>	<u>682.322</u>
	<u>2.666.421</u>	<u>1.175.199</u>
Current	2.666.421	1.175.199
Non-current	-	-
	<u>2.666.421</u>	<u>1.175.199</u>

24. DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

	2017	2016
	€	€
Current	<u>2.480.674</u>	<u>2.237.738</u>
Analysis by geographical sector	<u>2.480.674</u>	<u>2.237.738</u>
Cyprus	2.225.710	1.983.357
Greece	254.781	254.186
Other countries	<u>183</u>	<u>195</u>
	<u>2.480.674</u>	<u>2.237.738</u>

25. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	2017	2016
	€	€
Current	1.103.199.997	1.060.953.688
Non-current	-	11.509.567
	<u>1.103.199.997</u>	<u>1.072.463.255</u>

Deposits and other customer accounts are analysed as follows:

	2017	2016
	€	€
Deposits from corporate entities:		
Large entities and organisations	1.318.084	2.392.347
Small and medium size enterprises	590.241.731	575.045.537
Deposits from individuals	<u>511.640.182</u>	<u>495.025.371</u>
Total	<u>1.103.199.997</u>	<u>1.072.463.255</u>

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

	2017	2016
	€	€
Cyprus	804.358.516	712.724.861
Greece	109.852.843	119.496.918
British Virgin Islands	43.976.790	71.787.942
Russia	12.338.732	25.724.611
Other countries	<u>132.673.116</u>	<u>142.728.923</u>
Total	<u>1.103.199.997</u>	<u>1.072.463.255</u>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 26. DEFERRED TAX ASSETS AND LIABILITIES

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

#### Deferred tax assets

	2017	2016
	€	€
Balance at 1 January	7.641.115	5.498.491
Change of future utilisation of tax losses	(1.711.306)	(428.707)
(Credit) / Debit from impaired loans and advances	(213.654)	2.571.331
<b>Balance at 31 December</b>	<b><u>5.716.155</u></b>	<b><u>7.641.115</u></b>

#### Deferred tax liabilities

	2017	2016
	€	€
Balance at 1 January	883.393	1.064.617
Adjustment – property revaluation	4.108	(181.224)
Adjustment – inflation rates	-	-
<b>Balance at 31 December</b>	<b><u>887.501</u></b>	<b><u>883.393</u></b>

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

	2017	2016
	€	€
<b>Deferred tax assets</b>		
Deferred tax relating to future utilisation of tax losses	4.316.809	6.028.115
Deferred tax relating to collective provisions	1.399.346	1.613.000
	<b><u>5.716.155</u></b>	<b><u>7.641.115</u></b>
<b>Deferred tax liabilities</b>		
Property revaluation (1)	731.422	727.314
Difference between depreciation and capital allowances	156.079	156.079
	<b><u>887.501</u></b>	<b><u>883.393</u></b>

(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 11 January 2018. It comprises of the Group's headquarters on 1 Spyrou Kyprianou Street, Nicosia.

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

	2017	2016
	€	€
Tax losses	(1.711.306)	2.571.331
Collective impairment of loans and advances	(213.654)	(428.707)
<b>Total (Note 13)</b>	<b><u>(1.924.960)</u></b>	<b><u>2.142.624</u></b>

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

**27. OTHER LIABILITIES**

	2017	2016
	€	€
Payable expenses	1.842.453	1.837.571
Deferred income	-	1.453.245
Outstanding customers banking transactions	17.047.829	6.138.714
Other liabilities	<u>2.923.516</u>	<u>7.300.758</u>
<b>Total</b>	<b><u>21.813.798</u></b>	<b><u>16.730.288</u></b>
Current	21.682.888	16.599.378
Non-current	<u>130.910</u>	<u>130.910</u>
<b>Total</b>	<b><u>21.813.798</u></b>	<b><u>16.730.288</u></b>

**28. SHARE CAPITAL AND SHARE PREMIUM**

	Number of shares	Share Capital €	Share Premium €	Total €
<b>1 January 2016</b>	3.360.798	3.360.798	158.592.933	161.953.731
Issue of share capital	<u>10.752.689</u>	<u>10.752.689</u>	<u>29.247.314</u>	<u>40.000.003</u>
<b>31 December 2016</b>	<b><u>14.113.487</u></b>	<b><u>14.113.487</u></b>	<b><u>187.840.247</u></b>	<b><u>201.953.734</u></b>
<b>1 January 2017</b>	14.113.487	14.113.487	187.840.247	201.953.734
Share premium reduction (1)	-	-	<u>(99.285.543)</u>	<u>(99.285.543)</u>
<b>31 December 2017</b>	<b><u>14.113.487</u></b>	<b><u>14.113.487</u></b>	<b><u>88.554.704</u></b>	<b><u>102.668.191</u></b>

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 2017 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.

**29. RETAINED EARNINGS AND OTHER RESERVES**

	2017	2016
	€	€
<b>Retained earnings</b>		
Balance at 1 January	(99.211.108)	(92.128.529)
Share premium reduction against accumulated losses (Note 28)	99.285.543	-
Profit /(loss) for the year attributable to the Group's shareholders	<u>5.046.824</u>	<u>(7.084.579)</u>
<b>Balance at 31 December</b>	<b><u>5.121.259</u></b>	<b><u>(99.211.108)</u></b>
<b>Fair value reserve on available for sale financial assets</b>		
Balance at 1 January	315.057	137.862
Revaluation for the year (Note 18)	8.368.905	177.195
Transfer of realised losses on disposal of available for sale financial assets	<u>(275.929)</u>	<u>-</u>
<b>Balance 31 December</b>	<b><u>8.408.033</u></b>	<b><u>315.057</u></b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 29. RETAINED EARNINGS AND OTHER RESERVES (continued)

	2017 €	2016 €
Property revaluation reserves		
Balance at 1 January	-	-
Impairment of property	-	-
Balance 31 December	-	-
<b>Total reserves at 31 December</b>	<b><u>13.529.292</u></b>	<b><u>(98.896.051)</u></b>

### 30. CASH AND CASH EQUIVALENTS

	2017 €	2016 €
Cheques to be cleared (Note 14)	2.108.869	2.348.503
Cash (Note 14)	9.730.468	8.634.370
Balances with the Central Bank of Cyprus (Note 14)	304.996.611	305.996.600
Bank accounts (Note 15)	24.818.508	36.113.413
Placements with other banks – up to three months (Note 15)	<u>26.810.783</u>	<u>51.001.211</u>
Balance at 31 December	<b><u>368.465.239</u></b>	<b><u>404.094.097</u></b>

### 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.

	2017 €	2016 €
Credit guarantees	79.300	324.453
Letters of guarantee	<u>23.073.758</u>	<u>12.779.548</u>
Total	<b><u>23.153.058</u></b>	<b><u>13.104.001</u></b>

As at 31 December 2017 letters of guarantee of €12.364.398 (2016: €3.682.328) 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 €58.116.359 (2016: €62.437.224).

#### Legal proceedings

As at 31 December 2017 and 2016 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 it is not probable that the Group will suffer any significant damage that will affect its ability to operate normally.

#### 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 31. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

	2017	2016
	€	€
Up to one year	253.077	421.133
From one to five years	12.625	66.648
More than five years	-	-
	<u>265.702</u>	<u>487.781</u>

#### Tax issues

Tax years 2014 and 2015 are currently under tax examination, while the tax year 2016 is open for examination. Given that the tax investigation may consider some of the expenses of the period as non-deductible for tax purposes, or may differentiate the tax treatment for some provisions, it is possible that additional taxes may be imposed for years that the tax investigation has not been completed yet by the tax authorities. The Sale and Purchase Agreement which was signed in July 2016 and completed on 28 December 2016, includes warranties which impose an obligation on Piraeus Bank S.A. to compensate the Group for any payments made to the tax authorities in respect of the open tax years prior to completion.

### 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:

	<u>Notional contract amount</u>	<u>Fair Value</u>	
		<u>Assets</u>	<u>Liabilities</u>
	€	€	€
<b>2017</b>			
<b>Derivatives held for trading:</b>			
<b>Foreign exchange derivatives</b>			
Forward contracts	7.332.689	13.170	469.451
Currency swaps	80.708.705	<u>19.097</u>	659
<b>Total derivative financial instruments</b>		<u>32.267</u>	<u>470.110</u>
<b>2016</b>			
<b>Derivatives held for trading:</b>			
<b>Foreign exchange derivatives</b>			
Forward contracts	14.249.899	765.220	741.330
Currency swaps	121.184.531	<u>303.754</u>	<u>806.602</u>
<b>Total derivative financial instruments</b>		<u>1.068.974</u>	<u>1.547.932</u>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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 2017 and 31 December 2016 are:

Companies	Country of incorporation	Activities	Percentage holding % 2017	Percentage holding % 2016
EMF Investors Limited	Cyprus	Dormant	100%	100%
AstroBank Insurance Agency Limited (Former Piraeus (Cyprus) Insurance Brokerage)	Cyprus	Insurance Broker	100%	100%
Adfilkton Investments Ltd	Cyprus	Investment property owner	100%	100%
Costpleo Investments Ltd	Cyprus	Investment property owner	100%	100%
Custsofiar Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Gravieron Company Ltd	Cyprus	Investment property owner	100%	100%
Kalihur Investment Ltd	Cyprus	Investment property owner	100%	100%
Pertanam Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Rockory Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Alarconaco Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Langesee Limited	Cyprus	Investment property owner	100%	-
Bakkens Limited	Cyprus	Investment property owner	100%	-
Achardz Limited	Cyprus	Investment property owner	100%	-
Xepa Limited	Cyprus	Investment property owner	100%	-

All Group companies are being consolidated using the acquisition method of accounting.

### 34. MANAGEMENT OF FINANCIAL RISKS

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

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

As at 31 December 2017 the Group holds assets which are directly or indirectly affected by the financial soundness of the Cyprus economy as follows:

Cyprus Government Debt securities (2017: €153m, 2016: €55m)

Loans and other advances - Loans granted under the guarantee of the Cyprus Government (2017: €60m, 2016: €74m).

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### **Cyprus economic environment**

Economic recovery in Cyprus accelerated in 2017 and the medium term outlook is favourably driven by an improving labour market, broadening investments and increasing resilience. Cyprus continues to face challenges primarily in relation to public and private indebtedness and non-performing exposures, but while more remains to be done, considerable progress has been achieved.

Real GDP in Cyprus increased by 3,9% in 2017 according to the Cyprus Statistical Service, compared with a 3,4% increase the previous year. In the labour market, according to Eurostat, the unemployment rate dropped to 11,0% on average in the year from 13,0% the year before according to the Cyprus Statistical Service. Average consumer inflation in the year was marginally positive at 0,5% after four years of deflation (Cyprus Statistical Service). In the public sector the budget surplus increased significantly and the trend in the public debt to GDP ratio appears to be reversing downward. Also, in the banking sector funding conditions continued to improve against a backdrop of favourable developments regarding non-performing exposures.

In the banking sector there have been significant improvements in funding conditions and asset quality. Total deposits increased marginally by 0,8% in the year, with resident deposits increasing by 3,3%. Loan deleveraging continued in the year with total loans outstanding dropping by 7,1% and loans to residents dropping by 4,8% (CBC).

Cyprus' consistent fiscal outperformance and favourable outlook indicate a more rapid reversal in the public debt ratio and the ratio of non-performing loans, than previously expected. The outlook over the medium term is generally positive according to the IMF and the European Commission, while the economy continues to face challenges. Upside factors relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and stronger investment spending as property prices are stabilising and as projects in tourism, energy and public works are being implemented. Downside risks to this outlook are associated with the still high levels of non-performing loans, and public debt ratio, and with a possible deterioration of the external environment.

The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Rating affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In April 2018, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB+ from BB with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.

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

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

#### **Credit risk**

Credit risk arises from the possibility of losses relating to late payments to 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 loan receivables is determined using the method of incurred losses as required by the relevant standards. These standards require recognition of impairment losses on receivables arising from past events.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Credit risk (continued)

##### 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 provide for the segregation of duties in order to ensure the objectivity, independence and monitoring of new and existing loans.

During the approval process the total credit risk is examined for each counterparty or group of counterparties which are related at 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 Bank which takes into account the criteria of the Central Bank of Cyprus. Significant exposures or delays are communicated to the Management which oversees the corresponding department for taking preventive or corrective measures.

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

##### Internal rating systems

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

Individuals are evaluated based on two different methods of internal grading. The first method relates to existing customers and is based on the customers' repayment history and their general cooperation with the 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.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Credit risk (continued)

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

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

#### Maximum exposure to credit risk before collaterals and other credit improvements

The table below presents the maximum exposure to credit risk that results from financial instruments included in the 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	
	2017	2016
	€	€
Credit risk exposure from financial assets on the consolidated balance sheet:		
Deposits with Central Bank (Note 14)	315.092.802	334.346.412
Placements with other banks (Note 15)	51.629.291	87.114.624
Receivables from debt securities (Note 16)		44.288.759
Loans and advances to customers (Note 17)	513.519.525	556.441.503
Available for sale financial assets – investments in bonds (Note 18)	214.654.860	74.074.782
Financial assets at fair value through profit or loss (Note 19)	15.810.292	
Derivative financial instruments (Note 32)	32.267	1.068.974
Other assets (Note 23)	2.666.421	1.175.199
	<u>1.113.405.458</u>	<u>1.098.510.253</u>
Credit risk exposure from off balance sheet items:		
Credit guarantees (Note 31)	79.300	324.453
Letters of guarantee (Note 31)	23.073.758	12.779.548
Unutilised credit limits (Note 31)	58.116.359	62.437.224
Total off balance sheet items	<u>81.269.417</u>	<u>75.541.225</u>
<b>Total on and off balance sheet items</b>	<b><u>1.194.674.875</u></b>	<b><u>1.174.051.478</u></b>

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

According to the above table, 31% (2016: 36%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 43% (2016: 47%) from advances to customers and 18% (2016: 6%) is derived from investment in bonds classified under the Available for sale portfolio. The Management of the Group is confident in its ability to continue to control credit risk, which results from both the credit advances portfolio and the debt securities portfolio.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Credit risk (continued)

#### Loans and advances

The following table analyses the quality of the Group's advances

	2017 Advances €	2016 Advances €
<i>Loans and advances to customers</i>		
Neither past-due nor impaired	276.796.344	270.589.581
Past-due but not impaired	149.908.888	152.040.151
Impaired	<u>296.907.582</u>	<u>344.238.906</u>
<b>Gross loans and advances (Note 17)</b>	<b>723.612.814</b>	<b>766.868.638</b>
Provision for impairment of loans and advances (Note 17)	<u>(210.093.289)</u>	<u>(210.427.135)</u>
<b>Net loans and advances to customers</b>	<b><u>513.519.525</u></b>	<b><u>556.441.503</u></b>

#### a. Loans and advances neither past due nor impaired

The following table analyses the Group's loans and advances that were neither past due nor impaired, by internal credit rating category

	Individuals €	Large entities & organisations €	Small and medium size enterprises €	Total €
<b>2017</b>				
Credit rating category:				
Low risk	60.763.315	94.888.811	87.757.516	243.409.642
Medium risk	<u>7.254.777</u>	<u>-</u>	<u>26.131.925</u>	<u>33.386.702</u>
	<b><u>68.018.092</u></b>	<b><u>94.888.811</u></b>	<b><u>113.889.441</u></b>	<b><u>276.796.344</u></b>
<b>2016</b>				
Credit rating category:				
Low risk	50.533.110	69.584.837	108.462.010	228.579.957
Medium risk	<u>8.814.705</u>	<u>4.451.164</u>	<u>28.743.755</u>	<u>42.009.624</u>
	<b><u>59.347.815</u></b>	<b><u>74.036.001</u></b>	<b><u>137.205.765</u></b>	<b><u>270.589.581</u></b>

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

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

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

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

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

**Credit risk (continued)**

**Loans and advances (continued)**

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

	Individuals €	Large entities & organisations €	Small and medium enterprises €	Total €
<b>2017</b>				
1 to 30 days past-due (1)	19.919.796	10.262.789	83.855.903	114.038.488
31 to 60 days past-due	4.780.446	-	10.665.187	15.445.633
61 to 90 days past-due	2.778.962	-	448.738	3.227.700
More than 90 days past-due (2)	11.133.461	-	6.063.606	17.197.067
Past-due but not impaired loans and advances	<u>38.612.665</u>	<u>10.262.789</u>	<u>101.033.434</u>	<u>149.908.888</u>
Fair value of collateral	<u>35.983.737</u>	<u>6.123.621</u>	<u>110.143.080</u>	<u>152.250.438</u>
<b>2016</b>				
1 to 30 days past-due (1)	23.357.781	20.442.507	78.535.916	122.336.204
31 to 60 days past-due	4.301.220	-	5.223.590	9.524.810
61 to 90 days past-due	3.388.624	-	1.827.348	5.215.972
More than 90 days past-due (2)	8.844.877	-	6.118.288	14.963.165
Past-due but not impaired loans and advances	<u>39.892.502</u>	<u>20.442.507</u>	<u>91.705.142</u>	<u>162.040.151</u>
Fair value of collateral	<u>39.154.938</u>	<u>6.376.705</u>	<u>98.612.832</u>	<u>144.143.475</u>

(1) Loans and advances which are 1 to 30 days past due include advances of €68 067.400 (2016: €106.184.164) that were past due for one day on the last day of the year.

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

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

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

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

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

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Loans and advances (continued)

c. Loans and advances which have been impaired (continued)

	Individuals €	Large entities & organisations €	Small and medium enterprises €	Total €
<b>2017</b>				
Loans and advances individually impaired	<u>100.148.506</u>	<u>15.867.886</u>	<u>180.891.190</u>	<u>296.907.582</u>
Total	<u>100.148.506</u>	<u>15.867.886</u>	<u>180.891.190</u>	<u>296.907.582</u>
Fair value of collateral	<u>29.738.939</u>	<u>14.657.448</u>	<u>52.380.305</u>	<u>96.776.692</u>
<b>2016</b>				
Loans and advances individually impaired	<u>111.306.203</u>	-	<u>232.932.703</u>	<u>344.238.906</u>
Total	<u>111.306.203</u>	-	<u>232.932.703</u>	<u>344.238.906</u>
Fair value of collateral	<u>36.465.501</u>	-	<u>99.895.851</u>	<u>136.361.352</u>

An amount of €263.765.120 as at 31 December 2017 (2016: €301.439.772) was more than 90 days past-due.

During 2017 the Group wrote-off advances amounting to €17.257.918 (2016: €15.817.932).

Collateral and other credit enhancements obtained

As at 31 December 2017 the Group held investment properties and financial assets at fair value through profit or loss acquired in satisfaction of debt of €64.730 thousand (2016: €31.527 thousand) (Note 22) and €12.225 thousand (2016: €11.860 thousand) (Note 19) respectively.

During 2017 there were disposals of repossessed collaterals of €1.300 thousand (2016: €923.000)

Placements with other Banks

The following table presents the placements with other banks (Note 15) categorised according to their credit rating as per the international credit rating agency, Moody's, as at 31 December 2017 (apart from (ii) which was categorised as per Standard and Poor's) and 2016 (apart from (i) which was categorised as per the Capital Intelligence Agency rating).

	2017 €	2016 €
Credit rating Aaa	997.011	-
Credit rating A1	46.212.423	13.076.171
Credit rating A2	531.371	48.061
Credit rating A3	-	18.613.009
Credit rating Ba1	418.681	1.651.803
Credit rating Baa2	30.000	-
Credit rating Ba3	-	138
Credit rating BB+ (ii)	1.408.700	-
Credit rating BB- (i)	-	50.001.389
Credit rating Caa1	999.889	-
Credit rating Caa2	-	999.822
Credit rating Caa3	<u>1.031.216</u>	<u>2.724.231</u>
	<u>51.629.291</u>	<u>87.114.624</u>

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

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

**Credit risk (continued)**

**Receivables from debt securities**

The following table presents the receivables from debt securities (Note 16) categorised according to their credit rating as per the international credit rating agency, Moody's, as at 31 December 2017 and 2016.

	2017 €	2016 €
Credit rating B1	-	<u>44.288.759</u>
<b>Financial assets available for sale</b>	<u>-</u>	<u>44.288.759</u>

The following table presents investments in bond securities (Note 18) categorised according to their rating as per the international credit rating agency, Moody's, as at 31 December 2017 and 2016.

	2017 €	2016 €
<b>Investments in bonds</b>		
Credit rating Aaa		
Credit rating A2	33.505.754	63.113.425
Credit rating Ba1	1.652.927	-
Credit rating Ba2	20.538.307	-
Credit rating Ba3	1.392.475	-
Credit rating B1	137.615.132	-
Credit rating Caa2	-	10.961.357
	<u>19.950.265</u>	<u>-</u>
	<u>214.654.860</u>	<u>74.074.782</u>

**Financial assets at fair value through profit or loss**

The following table presents investments in bond securities (Note 19) categorised according to their rating as per the international credit rating agency, Moody's, as at 31 December 2017 and 2016.

	2017 €	2016 €
<b>Investments in bonds</b>		
Credit rating Ba3	<u>15.810.292</u>	-
	<u>15.810.292</u>	<u>-</u>

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

**a) Geographical sector**

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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Credit risk (continued)

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

	Cyprus €	Greece €	Other countries €	Total €
<b>2017</b>				
Deposits with the Central Bank (Note 14)	315.092.802	-	-	315.092.802
Placements with other banks (Note 15)	999.887	973.619	49.655.785	51.629.291
Loans and Advances to customers (Note 17)	489.830.673	3.205.005	20.483.847	513.519.525
Available for sale financial assets- bonds (Note 18)	137.615.132	19.950.265	57.089.463	214.654.860
Financial assets at fair value through profit or loss (Note 19)	15.810.292	-	-	15.810.292
Derivative financial instruments (Note 32)	-	32.267	-	32.267
Other Assets (Note 23)	2.666.421	-	-	2.666.421
	<u>962.015.207</u>	<u>24.161.156</u>	<u>127.229.095</u>	<u>1.113.405.458</u>
Credit risk exposure from off balance sheet assets:				
Credit guarantees (Note 31)	79.300	-	-	79.300
Letters of guarantee (Note 31)	22.826.845	52.736	194.177	23.073.758
Unutilised credit limits (Note 31)	57.061.722	206.778	847.859	58.116.359
Total off balance sheet assets	<u>79.967.867</u>	<u>259.514</u>	<u>1.042.036</u>	<u>81.289.417</u>
<b>Total on and off balance sheet assets as at 31 December 2017</b>	<u>1.041.983.074</u>	<u>24.420.670</u>	<u>128.271.131</u>	<u>1.194.674.875</u>
	Cyprus €	Greece €	Other countries €	Total €
<b>2016</b>				
Deposits with the Central Bank (Note 14)	334.346.412	-	-	334.346.412
Placements with other banks (Note 15)	999.822	2.669.399	83.445.403	87.114.624
Receivables from debt securities (Note 16)	44.288.759	-	-	44.288.759
Loans and Advances to customers (Note 17)	495.035.062	11.996.912	49.409.529	556.441.503
Available for sale financial assets – bonds (Note 18)	10.961.357	-	63.113.425	74.074.782
Derivative financial instruments (Note 32)	493.198	575.776	-	1.068.974
Other Assets (Note 23)	1.175.199	-	-	1.175.199
	<u>887.299.809</u>	<u>15.242.087</u>	<u>195.968.357</u>	<u>1.098.510.253</u>
Credit risk exposure from off balance sheet assets:				
Credit guarantees (Note 31)	324.453	-	-	324.453
Letters of guarantee (Note 31)	12.424.151	138.029	217.368	12.779.548
Unutilised credit limits (Note 31)	61.238.490	165.942	1.032.792	62.437.224
Total off balance sheet assets	<u>73.987.094</u>	<u>303.971</u>	<u>1.250.160</u>	<u>75.541.225</u>
<b>Total on and off balance sheet assets as at 31 December 2016</b>	<u>961.286.903</u>	<u>15.546.058</u>	<u>197.218.517</u>	<u>1.174.051.478</u>

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

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

b) Business sector

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
	€	€	€	€	€	€	€	€
<b>2017</b>								
Deposits with Central Bank (Note 14)	-	-	-	-	315,092,602	-	-	315,092,602
Placements with other banks (Note 15)	-	-	-	-	51,629,291	-	-	51,629,291
Advances (Note 17):								
Advances to individuals	28,911	429	22,829	20,299	-	-	130,903,392	130,976,660
Advances to businesses:								
Large entities & organisations	6,582,245	-	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	45,756,376	119,673,333	11,857,909	4,489,655	52,442,308	262,425,652
Available for sale financial assets (Note 18)	-	-	-	-	-	214,654,860	-	214,654,860
Financial assets at fair value through profit or loss (Note 18)	-	-	-	-	-	15,810,292	-	15,810,292
Derivative financial instruments (Note 32)	-	-	-	-	32,267	-	-	32,267
Other assets (Note 23)	-	-	-	-	-	-	2,666,421	2,666,421
	<u>23,629,597</u>	<u>11,178,759</u>	<u>67,173,970</u>	<u>127,907,130</u>	<u>589,933,185</u>	<u>234,865,007</u>	<u>254,617,811</u>	<u>1,113,405,456</u>
<b>Credit Risk exposure from off balance sheet assets:</b>								
Credit guarantees (Note 31)	-	-	79,300	-	-	-	-	79,300
Letters of guarantee (Note 31)	1,306,475	10,615	1,480,476	13,684,242	1,432,690	-	5,158,260	23,073,758
Unutilised credit limits (Note 31)	<u>12,209,338</u>	<u>3,320,888</u>	<u>10,283,877</u>	<u>3,146,136</u>	<u>471,187</u>	<u>1,717,208</u>	<u>26,867,723</u>	<u>58,116,359</u>
	<u>13,515,813</u>	<u>3,331,503</u>	<u>11,843,653</u>	<u>16,830,380</u>	<u>1,903,877</u>	<u>1,717,208</u>	<u>32,128,983</u>	<u>81,269,417</u>
<b>Total on and off balance sheet assets 31 December</b>	<b><u>37,145,410</u></b>	<b><u>14,510,261</u></b>	<b><u>79,017,623</u></b>	<b><u>144,737,510</u></b>	<b><u>596,837,062</u></b>	<b><u>236,582,216</u></b>	<b><u>286,744,794</u></b>	<b><u>1,194,674,876</u></b>
	Industrial	Tourism	Commerce	Real estate and Construction	Financial institutions	Governments	Other sectors	Total
	€	€	€	€	€	€	€	€
<b>2016</b>								
Deposits with Central Bank (Note 14)	-	-	-	-	334,346,412	-	-	334,346,412
Placements with other banks (Note 15)	-	-	-	-	87,114,624	-	-	87,114,624
Receivables from debt securities (Note 16)	-	-	-	-	-	44,288,759	-	44,288,759
Advances (Note 17):								
Advances to individuals	11,711	739	16,960	26,751	-	-	137,825,316	137,883,467
Advances to businesses:								
Large entities & organisations	1,436,426	-	15,379,841	4,317,448	-	-	1,969,520	23,103,235
Small and medium size enterprises	14,585,654	32,028,043	59,997,507	121,816,475	22,016,330	5,044,503	140,163,299	395,454,801
Available for sale financial assets (Note 18)	-	-	-	-	-	74,074,782	-	74,074,782
Derivative financial instruments (Note 32)	-	-	-	-	1,046,264	-	22,720	1,068,974
Other assets (Note 23)	<u>16,033,791</u>	<u>32,029,782</u>	<u>75,394,296</u>	<u>126,964,674</u>	<u>444,523,620</u>	<u>123,408,044</u>	<u>1,176,199</u>	<u>1,098,510,523</u>
<b>Credit Risk exposure from off balance sheet assets:</b>								
Credit guarantees (Note 31)	-	-	324,453	-	-	-	-	324,453
Letters of guarantee (Note 31)	1,206,441	30,245	1,218,750	6,601,423	642,641	-	3,060,148	12,779,548
Unutilised credit limits (Note 31)	<u>11,408,019</u>	<u>2,005,172</u>	<u>10,962,486</u>	<u>7,671,219</u>	<u>780,209</u>	<u>643,790</u>	<u>28,086,949</u>	<u>62,437,224</u>
	<u>12,614,460</u>	<u>2,035,417</u>	<u>12,605,669</u>	<u>14,272,642</u>	<u>1,402,750</u>	<u>643,790</u>	<u>32,166,497</u>	<u>75,541,225</u>
<b>Total on and off balance sheet assets 31 December 2016</b>	<b><u>28,649,261</u></b>	<b><u>34,066,189</u></b>	<b><u>87,899,867</u></b>	<b><u>140,237,316</u></b>	<b><u>446,926,370</u></b>	<b><u>123,951,834</u></b>	<b><u>313,322,641</u></b>	<b><u>1,174,061,478</u></b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Credit risk (continued)

#### b) Business sector (continued)

##### Risk of counterparty banks

The Bank runs the risk of loss of capital due to the possibility that a counterparty bank will delay or default on its payments on any existing or contingent liabilities. Through its daily operations, the Bank enters into transactions with other banks and financial institutions. By entering into these transactions the Bank runs the risk of incurring losses in the event of late repayments or default of existing and contingent liabilities of the counterparty banks.

The limits set for counterparty banks reflect the level of risk that is considered acceptable and are then distributed to the Treasury Department or to any other service departments where this kind of risk exists, based on the needs and volume of transactions within each service department. Generally, the limits are determined by banking sector evaluation models, as well as by the requirements of the supervisory authorities. The credit limit set for each counterparty is divided into sub-limits covering placements, investments, foreign exchange trading as well as the daily clearing limit. Actual positions are monitored against the limits on a daily basis and in real time.

##### Country risk

The Bank runs the risk of losing capital due to possible political, economic and other events in a particular country where the Bank's capital or liquid funds have been placed or invested in local banks and financial institutions. All countries are evaluated based on their size, economic data and country prospects and credit-worthiness rates provided by international credit rating agencies (Fitch, Moody's 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 2017 there were no violations of the CRR Large Exposure Limits.

As at and during the year ended 31 December 2017 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 (as described in note 3 of the Consolidated Management Report). The Central Bank of Cyprus has been notified accordingly and has not requested any remedial action from the Bank.

##### **Interest rate risk**

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

With regards to balance sheet items in the Group's portfolio as at 31 December 2017 a parallel increase in market interest rates across all currencies by 200 basis points would result in an increase in profit before tax by €2,7 m (2016: €0,5m). A parallel decrease in market interest rates by 200 basis points would result in a decrease in profit before tax by €2,7m (2016: €0,5m).

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 2017

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
	€	€	€	€	€	€	€
<b>2017</b>							
<b>Assets</b>							
Cash and deposits with Central Bank	315.092.802	-	-	-	-	-	-
Placements with other Banks	51.629.291	-	-	-	-	11.839.337	326.932.139
Loans and advances to customers	285.142.953	187.382.167	40.537.162	209.301	247.942	-	51.629.291
Available for sale financial assets	6.495.682	46.960.336	9.508.592	28.807.732	122.882.518	-	513.518.525
Financial assets at fair value through profit or loss	138.466	15.671.826	-	-	-	-	214.654.860
Derivative financial instruments	-	-	-	-	-	-	15.810.292
Other assets	-	-	-	-	-	32.267	32.267
<b>Total</b>	<b>658.499.194</b>	<b>260.014.329</b>	<b>50.045.754</b>	<b>29.017.033</b>	<b>123.130.460</b>	<b>14.538.025</b>	<b>1.125.244.795</b>
<b>2017</b>							
<b>Liabilities</b>							
Due to other banks	1.813.517	867.167	-	-	-	-	2.480.674
Customer deposits	677.846.681	143.151.631	282.147.356	54.329	-	-	1.103.199.997
Derivative financial instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	470.110	470.110
<b>Total</b>	<b>679.660.198</b>	<b>143.818.788</b>	<b>282.147.356</b>	<b>54.329</b>	<b>-</b>	<b>21.813.798</b>	<b>21.813.798</b>
<b>Net balance sheet position</b>	<b>(21.161.004)</b>	<b>106.195.541</b>	<b>(232.101.602)</b>	<b>28.952.704</b>	<b>123.130.460</b>	<b>22.283.988</b>	<b>1.127.984.579</b>
<b>2016</b>							
<b>Assets</b>							
Cash and deposits with Central Bank	334.346.412	-	-	-	-	-	-
Placements with other Banks	37.113.235	50.001.389	-	-	-	10.982.873	345.329.285
Receivables from debt securities	19.997.444	12.495.721	-	11.795.594	-	-	87.114.624
Loans and advances to customers	170.117.268	194.992.809	84.991.661	57.463.777	48.875.988	-	44.288.759
Available for sale financial assets	-	-	63.113.425	10.961.357	-	-	556.441.503
Derivative financial instruments	-	-	-	-	-	-	74.074.762
Other assets	-	-	-	-	-	1.068.974	1,068,974
<b>Total assets</b>	<b>561.574.359</b>	<b>257.489.919</b>	<b>148.105.086</b>	<b>80.220.728</b>	<b>48.875.988</b>	<b>1,175,199</b>	<b>1,109,493,126</b>
<b>2016</b>							
<b>Liabilities</b>							
Due to other banks	1,579,434	658,304	-	-	-	-	2,237,738
Customer deposits	616,908,185	147,210,973	296,834,550	11,509,567	-	-	1,072,463,255
Derivative financial instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	1,547,932	1,547,932
<b>Total</b>	<b>618,487,599</b>	<b>147,869,277</b>	<b>296,834,550</b>	<b>11,509,567</b>	<b>-</b>	<b>18,730,288</b>	<b>18,730,288</b>
<b>Net balance sheet position</b>	<b>(56,913,240)</b>	<b>109,620,642</b>	<b>(148,729,464)</b>	<b>68,711,161</b>	<b>48,875,988</b>	<b>18,278,220</b>	<b>1,092,979,213</b>

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

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 2017. The analysis below assumes possible scenarios of movements to take place for exchange rates against Euro.

Currency	Change in exchange rate	2017 Impact on consolidated income statement €000	2016 Impact on consolidated income statement €000
United States Dollar	+10% (-10%)	+30 (-30)	+63 (-63)
Pound sterling	+10% (-10%)	+10 (-10)	+6 (-6)
Swiss Franc	+10% (-10%)	+231 (-231)	+39 (-39)
Other currencies	+10% (-10%)	+0 (0)	+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 €
<b>2017</b>						
<b>Assets</b>						
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
Property, plant 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
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
<b>Total assets</b>	<b>1.133.017.560</b>	<b>80.014.371</b>	<b>13.721.100</b>	<b>13.927.396</b>	<b>4.460.627</b>	<b>1.245.141.054</b>

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

34. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency risk (continued)

	Euro	US Dollar	Pound sterling	Swiss Franc	Other currencies	Total
	€	€	€	€	€	€
<b>2017</b>						
<b>Liabilities</b>						
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
Current tax liabilities	91.491	-	-	-	-	91.491
Deferred tax liabilities	897.501	-	-	-	-	897.501
Other liabilities	<u>18.501.832</u>	<u>2.658.006</u>	<u>486.523</u>	<u>89.044</u>	<u>78.393</u>	<u>21.813.798</u>
<b>Total liabilities</b>	<b>941.662.606</b>	<b>149.947.741</b>	<b>29.587.117</b>	<b>523.307</b>	<b>7.222.600</b>	<b>1.128.943.571</b>
<b>Equity</b>	<b>116.197.483</b>	-	-	-	-	<b>116.197.483</b>
<b>Total equity and liabilities</b>	<b>1.057.860.289</b>	<b>149.947.741</b>	<b>29.587.117</b>	<b>523.307</b>	<b>7.222.600</b>	<b>1.245.141.054</b>
<b>Net balance sheet position</b>	<b>75.157.271</b>	<b>(69.933.370)</b>	<b>(15.866.017)</b>	<b>13.404.089</b>	<b>(2.761.973)</b>	-
<b>Net notional amount of derivative financial instruments</b>	<b>(72.449.984)</b>	<b>69.628.503</b>	<b>15.769.209</b>	<b>(15.710.674)</b>	<b>2.762.945</b>	-
<b>Net foreign exchange position</b>	<b>2.707.287</b>	<b>(304.867)</b>	<b>(96.808)</b>	<b>(2.306.585)</b>	<b>873</b>	-
	Euro	US Dollar	Pound sterling	Swiss Franc	Other currencies	Total
	€	€	€	€	€	€
<b>2016</b>						
<b>Assets</b>						
Cash and deposits with Central Bank	344.822.352	325.552	171.824	7.998	1.559	345.329.285
Receivables from debt securities	44.288.759	-	-	-	-	44.288.759
Placements with other banks	58.378.395	19.168.988	1.754.321	226.086	7.586.834	87.114.624
Loans and advances to customers	497.584.952	29.274.848	3.720.968	25.794.628	66.107	556.441.503
Available for sale financial assets	86.278.931	-	-	-	-	86.278.931
Assets at fair value through profit or loss	11.859.747	-	-	-	-	11.859.747
Property, plant and equipment	24.085.751	-	-	-	-	24.085.751
Intangible assets	189.444	-	-	-	-	189.444
Investment properties	31.527.490	-	-	-	-	31.527.490
Deferred tax assets	7.641.115	-	-	-	-	7.641.115
Derivative financial instruments	200.884	866.541	1.549	-	-	1.068.974
Tax receivable	-	-	-	-	-	-
Other assets	<u>1.677.970</u>	<u>(129.981)</u>	<u>72.326</u>	<u>(231.020)</u>	<u>(414.096)</u>	<u>1.175.199</u>
<b>Total assets</b>	<b>1.106.735.790</b>	<b>49.505.948</b>	<b>5.720.968</b>	<b>25.797.692</b>	<b>7.240.404</b>	<b>1.197.000.822</b>
<b>Liabilities</b>						
Due to other banks	2.199.091	38.647	-	-	-	2.237.738
Customer deposits	867.598.446	169.131.854	25.000.643	277.636	10.454.676	1.072.463.255
Derivative financial instruments	854.093	636.401	57.438	-	-	1,547,932
Current tax liabilities	80.533	-	-	-	-	80,533
Deferred tax liabilities	883.393	-	-	-	-	883,393
Other liabilities	<u>14.498.308</u>	<u>968.861</u>	<u>1,130,576</u>	<u>6,175</u>	<u>126,348</u>	<u>16,730,288</u>
<b>Total liabilities</b>	<b>886.113.864</b>	<b>170.775.783</b>	<b>26.188.657</b>	<b>283.811</b>	<b>10.581.024</b>	<b>1,083,943,139</b>
<b>Equity</b>	<b>103.057.683</b>	-	-	-	-	<b>103,057,683</b>
<b>Total equity and liabilities</b>	<b>989.171.547</b>	<b>170.775.783</b>	<b>26,188,657</b>	<b>283,811</b>	<b>10,581,024</b>	<b>1,197,000,822</b>
<b>Net balance sheet position</b>	<b>119.564.243</b>	<b>(121,269,835)</b>	<b>(20,467,669)</b>	<b>25,513,881</b>	<b>(3,340,620)</b>	-
<b>Net notional amount of derivative financial instruments</b>	<b>(118,489,873)</b>	<b>120,640,706</b>	<b>20,408,297</b>	<b>(25,899,749)</b>	<b>3,340,620</b>	-
<b>Net foreign exchange position</b>	<b>1,074,370</b>	<b>(629,130)</b>	<b>(59,372)</b>	<b>(385,868)</b>	-	-

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### 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 all investments in equity securities, are classified as available for sale financial assets. European government bonds, including Cyprus government bonds listed in an active market, are also classified under this category.

In a scenario where the fair value of all financial assets available for sale is reduced by 5%, the revaluation loss on financial assets available for sale will be approximately €11,3m (2016: €4,3m). As at 31 December 2017 the investment in government bonds (see Note 18) is exposed to price fluctuations of bond instruments. A decrease /increase in the market price of the bonds by 5% as at 31 December 2017 would result in a decrease /increase in net equity of €11,5m (2016: €3,7m).

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 2017 would result in a decrease /increase in net equity of €1,2m (2016: €1,2m).

As at 31 December 2017 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 2017 would result in a decrease/ increase in net equity of €1,6m (2016: €NIL).

The Group is not exposed to commodities' price risk.

#### Liquidity risk

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

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

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

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

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

During the year ended 31 December 2017 the Bank's EUR liquidity regulatory ratios were at all times within the corresponding CBC limits and there were no violations, whereas the FCY liquidity regulatory ratio was five times in breach during February (maximum limit excess 4.87%). As from 1 January 2018 the Local Regulatory Protective Ratios have been abolished and new macro prudential rules have been imposed. The Bank must maintain additional liquidity requirements in the form of add-on rates on some of the LCR parameters and deposit categories.

As at 31 December 2017, at the date of this Annual Report and throughout the year, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Liquidity risk (continued)

##### Cash flows from non-derivative financial instruments

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

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

	Up to 1 month	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	€	€	€	€	€	€
<b>2017</b>						
<b>Financial assets</b>						
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	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	138.466	15.671.826	-	-	-	15.810.292
Other assets	2.666.421	-	-	-	-	2.666.421
	<u>396.838.362</u>	<u>73.548.893</u>	<u>168.395.727</u>	<u>85.865.955</u>	<u>537.166.635</u>	<u>1.281.815.572</u>
<b>Financial liabilities</b>						
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
	<u>703.457.981</u>	<u>144.816.274</u>	<u>284.117.910</u>	-	-	<u>1.132.392.165</u>
<b>Net liquidity position</b>	<b>(306.619.619)</b>	<b>(71.267.381)</b>	<b>(115.722.183)</b>	<b>85.865.955</b>	<b>537.166.635</b>	<b>129.423.407</b>
<b>2016</b>						
<b>Financial assets</b>						
Cash and deposits with Central Bank	345.329.285	-	-	-	-	345.329.285
Placements with other banks	37.113.235	50.001.389	-	-	-	87.114.624
Receivables from debt securities	19.997.444	12.495.721	-	11.795.594	-	44.288.759
Loans and advances to customers	117.901.685	1.667.050	85.837.487	93.099.204	319.419.851	617.925.277
Available for sale financial assets	-	-	69.069.945	10.981.357	6.247.629	86.278.931
Other assets	1.175.199	-	-	-	-	1.175.199
	<u>521.516.848</u>	<u>64.164.160</u>	<u>164.907.432</u>	<u>115.886.155</u>	<u>325.667.480</u>	<u>1.182.112.075</u>
<b>Financial liabilities</b>						
Due to other banks	1.579.434	658.304	-	-	-	2.237.738
Customer deposits	616.948.955	147.591.002	300.216.133	12.006.218	-	1,076,762,308
Other liabilities	16,730,288	-	-	-	-	16,730,288
	<u>635.258.677</u>	<u>148.249.306</u>	<u>300.216.133</u>	<u>12.006.218</u>	-	<u>1,095,730,334</u>
<b>Net liquidity position</b>	<b>(113.741.829)</b>	<b>(84.085.146)</b>	<b>(145.308.701)</b>	<b>103.849.937</b>	<b>325.667.480</b>	<b>86.381.741</b>

##### 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

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

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

#### *Financial assets not measured at fair value*

##### a) Placements with/due to other banks

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

##### b) Loans and advances

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

##### c) Deposits

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

The 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.

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

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

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

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

	Level 1 €	Level 2 €	Level 3 €	Total €
<b>2017</b>				
<b>Financial Assets</b>				
Available for sale financial assets (Note 18)	214.654.860	-	12.204.149	226.859.009
Financial assets at fair value through profit or loss (Note 19)	15.810.292	-	12.225.044	28.035.336
Derivative financial instruments (Note 32)	<u>-</u>	<u>32.267</u>	<u>-</u>	<u>32.267</u>
	<u>230.465.152</u>	<u>32.267</u>	<u>24.429.193</u>	<u>254.926.612</u>
<b>Financial liabilities</b>				
Derivative financial instruments (Note 32)	<u>-</u>	<u>470.110</u>	<u>-</u>	<u>470.110</u>
	<u>-</u>	<u>470.110</u>	<u>-</u>	<u>470.110</u>
	Level 1 €	Level 2 €	Level 3 €	Total €
<b>2016</b>				
<b>Financial Assets</b>				
Available for sale financial assets (Note 18)	74.074.782	-	12.204.149	86.278.931
Financial assets at fair value through profit or loss (Note 19)	-	-	11.859.747	11.859.747
Derivative financial instruments (Note 32)	<u>-</u>	<u>1.068.974</u>	<u>-</u>	<u>1.068.974</u>
	<u>74.074.782</u>	<u>1.068.974</u>	<u>24.063.896</u>	<u>99.207.652</u>
<b>Financial liabilities</b>				
Derivative financial instruments (Note 32)	<u>-</u>	<u>1.547.932</u>	<u>-</u>	<u>1,547.932</u>
	<u>-</u>	<u>1,547.932</u>	<u>-</u>	<u>1,547.932</u>

There were no significant transfers between levels during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise of government bonds listed in Foreign Stock Exchange and classified as available for sale and 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 2017

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

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

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

	Debt instruments €	Equity instruments €	Total €
1 January 2017	11.859.747	12.204.149	24.063.896
Disposals	(341.760)	-	(341.760)
Gain recognized in the consolidated income statement	707.057	-	707.057
<b>31 December 2017</b>	<u>12.225.044</u>	<u>12.204.149</u>	<u>24.429.193</u>

**Total gains (or losses) for the period included in the consolidated income statement for assets held at the end of the reporting period, under gains/ (losses)**

Change in unrealised gains (or losses) for the year included in consolidated income statement for assets held at the end of the reporting period	<u>707.057</u>	<u>-</u>	<u>707.057</u>
--	----------------	----------	----------------

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

	Debt instruments €	Equity instruments €	Total €
1 January 2016	12.049.250	12.165.020	24.214.270
Additions	-	39.129	39.129
Disposals	(923.000)	-	(923.000)
Gain recognized in the consolidated income statement	733.497	-	733.497
<b>31 December 2016</b>	<u>11.859.747</u>	<u>12.204.149</u>	<u>24.063.896</u>

**Total gains (or losses) for the period included in the consolidated income statement for assets held at the end of the reporting period, under gains/ (losses)**

Change in unrealised gains (or losses) for the year included in consolidated income statement for assets held at the end of the reporting period	<u>733.497</u>	<u>-</u>	<u>733.497</u>
--	----------------	----------	----------------

Refer to Notes 3, 21 and 22 for fair value disclosures of property, plant and equipment and investment properties, which are also measured at fair value.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Capital Management

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

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

During 2017 and as at 31 December 2017 the Bank was in full compliance with the Overall Capital Requirement (OCR) set by 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) will be gradually phased-in and will have a retroactive application. The CCB will be increasing by 0,625% every year starting from 1 January 2016 until being fully implemented (2,5%) on 1 January 2019.

The Pillar III disclosures under the Capital Requirements Regulation (EU) No. 575/2013 will be available on the Bank's website by 30 June 2018 ([www.astrobank.com](http://www.astrobank.com)) (Investor Relations).

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

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

	2017	2016
	€	€
<b>Regulatory Capital</b>		
Transitional Common Equity Tier 1 funds (CET1)	111.184.961	98.568.344
Additional transitional funds Tier 1 Funds (AT 1)	-	-
Tier II capital (T2)	-	-
<b>Total Transitional Regulatory Capital</b>	<u>111.184.961</u>	<u>98.568.344</u>
Risk weighted assets - credit risk	576.914.911	575.398.844
Risk weighted assets - market risk	8.063.013	-
Risk weighted assets - operational risk	69.046.078	73.042.213
<b>Total Risk weighted assets</b>	<u>654.024.002</u>	<u>648.441.057</u>
Transitional Common Equity Tier 1 funds (CET1) ratio	17,0%	16,2%
Transitional Tier 1 funds (Tier I) ratio	17,0%	15,2%
<b>Total Transitional Regulatory Capital ratio</b>	17,0%	16,2%

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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

#### Other risks

##### Supervisory risk

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

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

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

##### Intensity of competition

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

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

##### Legal risk

The Group could, from time to time, be involved in legal or arbitration matters or litigations which could bring about negative consequences on its operations and results. Legal risk also arises from legal proceedings that are pending or that could be raised against the Group (Note 31).

##### Political risk

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

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Loans and receivables	Trading derivatives	Available for sale financial assets	Financial assets at fair value through profit or loss	Total
	€	€	€	€	€
<b>2017</b>					
<b>Assets as per consolidated statement of financial position</b>					
Cash and deposits with Central Bank (Note 14)					
Placements with other banks (Note 15)	326.932.139	-	-	-	326.932.139
Loans and advances to customers (Note 17)	51.629.291	-	-	-	51.629.291
Available for sale financial assets (Note 18)	513.519.525	-	-	-	513.519.525
Financial assets at fair value through profit or loss (Note 19)	-	-	226.859.009	-	226.859.009
Derivative financial instruments (Note 32)	-	-	-	28.035.336	28.035.336
Other assets (Note 23)	-	32.267	-	-	32.267
	<u>2.666.421</u>	<u>32.267</u>	<u>-</u>	<u>-</u>	<u>2.666.421</u>
	<u>894.747.376</u>	<u>32.267</u>	<u>226.859.009</u>	<u>28.035.336</u>	<u>1.149.673.988</u>
			Trading derivatives	Other financial liabilities	Total
			€	€	€
<b>2017</b>					
<b>Liabilities as per consolidated statement of financial position</b>					
Due to other banks (Note 24)				2.480.674	2.480.674
Customer deposits (Note 25)				1.103.199.997	1.103.199.997
Derivative financial instruments (Note 32)			470.110	-	470.110
Other liabilities (Note 27)			-	21.813.798	21.813.798
			<u>470.110</u>	<u>1.127.494.469</u>	<u>1.127.964.579</u>
	Loans and receivables	Trading derivatives	Available for sale financial assets	Financial assets at fair value through profit or loss	Total
	€	€	€	€	€
<b>2016</b>					
<b>Assets as per consolidated statement of financial position</b>					
Cash and deposits with Central Bank (Note 14)	345.329.285	-	-	-	345.329.285
Placements with other banks (Note 15)	87.114.624	-	-	-	87.114.624
Debt securities (Note 16)	44.288.759	-	-	-	44.288.759
Loans and advances to customers (Note 17)	556.441.503	-	-	-	556.441.503
Available for sale financial assets (Note 18)	-	-	-	-	-
Financial assets at fair value through profit or loss (Note 19)	-	-	86.278.931	-	86.278.931
Derivative financial instruments (Note 32)	-	-	-	11.859.747	11.859.747
Other assets (Note 23)	-	1.068.974	-	-	1,068.974
	<u>1.175.199</u>	<u>1.068.974</u>	<u>-</u>	<u>-</u>	<u>1,175.199</u>
	<u>1.034.349.370</u>	<u>1.068.974</u>	<u>86.278.931</u>	<u>11.859.747</u>	<u>1.133.557.022</u>
			Trading derivatives	Other financial liabilities	Total
			€	€	€
<b>2016</b>					
<b>Liabilities as per consolidated statement of financial position</b>					
Due to other banks (Note 24)				2.237.738	2,237.738
Customer deposits (Note 25)				1,072,463,255	1,072,463,255
Derivative financial instruments (Note 32)			1,547,932	-	1,547,932
Other liabilities (Note 27)			-	16,730,288	16,730,288
			<u>1,547,932</u>	<u>1,091,431,281</u>	<u>1,092,979,213</u>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 36. RELATED PARTY TRANSACTIONS

Until 28 December 2016, the Bank and its subsidiaries (together the "Group") were controlled by Piraeus Bank S.A. ("PB S.A."), a company incorporated in Greece and listed in the Athens Stock Exchange, which held 100% of the parent Bank's share capital. As from 28 December 2016, 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 2017 and 2016:

	2017	2016
	€	€
Loans and other advances	<u>278.439</u>	<u>314.949</u>
Interest income	<u>7.027</u>	<u>7.877</u>
Deposits	<u>2.472.168</u>	<u>1.753.342</u>
Interest expense	<u>17.953</u>	<u>19.313</u>
Other fees	<u>11.794</u>	<u>-</u>

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

	2017	2016
	€	€
<b>Key management personnel remuneration:</b>		
Salaries and other current benefits and employer's social insurance contributions	<u>985.277</u>	<u>597.664</u>
Total key management personnel remuneration – under their executive capacity (i)	<u>985.277</u>	<u>597.664</u>
Total key management personnel remuneration – as directors	<u>-</u>	<u>-</u>

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

#### Non-executive directors remuneration

	2017	2016
	€	€
Total remuneration of non-executive directors	<u>313.292</u>	<u>80.000</u>

During 2016 the Group entered into transactions for the acquisition of fixed or intangible assets or for the supply of support services with related parties for a total amount of €558.294. Part of these transactions were in connection to the acquisition of fixed or intangible assets €6.604 with the remaining balance relating to other services rendered to the Group which have been included in the consolidated income statement for the year ended 31 December 2016.

Following the change in shareholding, Piraeus Bank S.A. group of companies are not considered to be related in the year 2017 and as at 31 December 2017.

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

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

**Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017**

**ASTROBANK GROUP**

**36. RELATED PARTY TRANSACTIONS (continued)**

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

The table below presents balances with related parties of the Piraeus Bank S.A. Group (controlling parent bank until 28 December 2016) included in the consolidated income statement for the years ended 31 December 2017 and 2016:

	2017	2016
	€	€
Interest income		
- with Piraeus Bank S.A.	-	-
- with Piraeus Bank S.A. Group related companies	-	64.045
Interest expense		
- with Piraeus Bank S.A.	-	-
- with Piraeus Bank S.A. Group related companies	-	3.631
Operating expenses		
- with Piraeus Bank S.A. Group related companies	-	89.775
- with Piraeus Bank S.A.	-	365.336
	-	171.360

**37. EVENTS AFTER THE REPORTING PERIOD**

On the 26th of January 2018, the Bank announced, as part of its strategy to reorganise and reshape its business model, its decision to proceed with a Voluntary Early Retirement Scheme which took the form of voluntary retirement. Upon completion, 16 members of the staff opted to take the scheme and retire from the Bank. As a result, an amount of €2,0 million will be charged to the income statement under administrative expenses in 2018.

The Group is currently at an advanced stage of negotiation with USB Bank PLC ("USB Bank") in connection with a transaction involving the acquisition by Astrobank Limited, under Article 16 of the Banking Law, of the assets, the liabilities and the business of USB Bank (except for two freehold properties, wholly owned by the Seller and used as Branches for its Banking Activity and 75% of the shares in a Special Purpose Vehicle owning the Head Office Building of USB Bank) for a cash consideration to be paid to USB Bank. Upon completion of the transaction, Astrobank Limited will immediately commence the integration of the acquired business of USB Bank which is expected to be completed within a period of 12 months from the effective date of acquisition. Astrobank Limited shall finance the transaction through an increase in its own equity for an amount equal to the consideration.

On 7th of May 2018 the Bank agreed to sell all the shares of its subsidiary Achardz Limited to a third party in consideration for the full settlement of the credit facilities payable by Achardz Limited to the Bank, amounting to €5,1m.

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

Independent auditor's report on pages 11 to 16.

