EUROBANK CYPRUS LTD

Report and
Financial Statements

For the year ended 31 December 2017

Eurobank Cyprus Ltd

Report and financial statements
for the year ended 31 December 2017

Contents

Eurobank Cyprus Ltd

Board of Directors and Other Officers

Board of Directors

R. Kyprianou	Chairman, Non Executive
M. Zampelas	Vice Chairman, Non Executive
M. Louis	Executive
D. Shacallis	Executive
M. Colakides	Non Executive
L. Demosthenous	Non Executive
O. Ellingham	Non Executive
A. Soteriou	Non Executive
N. Karamouzis	Non Executive
S. Ioannou	Non Executive
T. Phidia	Non Executive (appointed on 24 February 2017)

Executive Committee

M. Louis
D. Shacallis
C. Hambakis
A. Petsas
A. Malliotis
A. Antoniou
S. Kassianides
D. Eliades
N. Panayi
M. Hadjikyriakos

Company Secretary

D. Shacallis

Registered office

41 Arch. Makariou III Avenue
5th floor
CY-1065 Nicosia
Cyprus

Eurobank Cyprus Ltd

Management Report

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the "Bank") for the year ended 31 December 2017.

Principal activity

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

Branches

The Bank did not operate through any branches during the year.

Review of developments, position and performance of the Bank's business

The main financial highlights for the year are as follows:

	2017	2016
	€'000	€'000
Operating income	**96.861**	90.104
Operating expenses including provision for impairment of loans and advances	**45.307**	40.437
Profit before tax and government levies	**51.554**	49.667
Profit for the year	**41.137**	38.091
Customer deposits	**4.265.178**	3.908.262
Loans and advances to customers	**1.895.345**	1.817.465
Total assets	**5.288.532**	4.879.262
Equity	**409.858**	409.456
	%	%
Cost/income	**30,4**	29,0
Return on equity	**9,5**	9,8
Loans/deposits	**44,4**	46,5
Cost of risk	**0,8**	0,8
Provisions coverage	**72,4**	60,7
NPE	**5,0**	6,9
Capital adequacy ratio	**26,6***	30,0
CET1	**26,6**	28,3
* After the early repayment of €40m subordinated debt and payment of €50m of dividend during 2017		

The financial position, development and performance of the Bank as presented in these financial statements are considered satisfactory.

Business outlook and risks

The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance. The financial risks which are managed and monitored are credit risk, operational risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Notes 2.1 and 4 of the financial statements.

Operating environment of Cyprus

Cyprus is experiencing a strong recovery. The solid economic performance of the Cypriot economy has continued in 2017 with particularly visible positive signals emanating from the property market, with rating agencies continuing to assign a positive outlook in their Cyprus ratings. DBRS was the latest agency to do so in December 2017 within its long-term sovereign rating of BB+.

Overall, in 2017 growth is expected to have reached 3.8%, making Cyprus one of the fastest growing economies in the euro area. Growth is expected to moderate in 2018 and 2019, to 3.2% and 2.8% respectively. The economy's robust performance can be attributed to strong private consumption and solid export growth, as well as some support from public consumption. Private consumption benefitted from rapidly expanding employment across all sectors (which led to a marked decline in unemployment, including long-term unemployment) and rising compensation per employee. Wages and employment are expected to continue growing into 2018 and 2019, supporting private consumption.

Exports of services were strong, especially in the second and third quarters of 2017, linked to the ongoing tourism boom in Cyprus. This coincided with a certain rebound in goods exports. Meanwhile, import growth was more moderate in the first three quarters of 2017 compared to 2016, but both investment and imports have picked up in the last quarter of the year. After the surge in 2016, investment levelled off in 2017. It is projected to pick up in 2018, on the back of buoyant residential construction and plans for large tourism projects. In 2019, import growth is expected to strengthen, driven by rising consumption and investment, while export growth is set to slow given limited opportunities for further growth, especially in tourism where capacity constraints may become binding.

Inflation surprised on the downside, with HICP at 0.7% in 2017. Inflation was mainly driven by energy prices, while prices of processed and non-processed foods and industrial goods declined in the second half of the year. After two years in negative territory, core inflation turned marginally positive in 2017 due to higher service prices linked to increasing wages. Inflation in 2018 is expected to climb to 1.2%, mainly as a result of higher oil prices, and to 1.3% in 2019, amid higher domestic price pressures stemming from wage dynamics.

The Bank continues to believe that the business environment and projected economic growth will be conducive to business growth. The Bank envisages to advance through the successful implementation of the existing operating model while recognising and addressing the emergence of new opportunities.

Management Report (continued)

Business outlook and risks (continued)

Financial risk management

Credit risk
The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are recognised for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Therefore, management carefully manages its exposure to credit risk.

The Bank minimises the risk by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.

In addition, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted (excluding related party balances, Note 30). Facilities higher than these limits are authorised and monitored at group level.

Market risk
The Bank takes on exposure to market risks. Market risks arise from exposure to interest rates, currency and equity products or combination of them, all of which are exposed to general and specific market movements. These risks are managed by the Risk Management Unit of the Bank in cooperation with the Risk Committee.

Liquidity risk
Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match, and as a result there may be inability to meet cash calls.

The Bank is exposed to daily calls on its available cash resources due to deposits withdrawals, loan draw-downs and guarantees, margin calls and payments on cash-settled derivatives. The Bank maintains cash resources to meet all of these needs. The Risk Committee sets liquidity limits to ensure that sufficient funds are available to meet such calls.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because past performance supports that the third parties generally do not draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Management Report (continued)

Future developments of the Bank

The Bank currently operates through a network of 8 Banking Centres in Nicosia, Limassol, Larnaca, Paphos and Famagusta. The Bank will continue to strengthen its operations investing in human capital and procedures in various areas.

Results

The Bank's results for the year are set out on pages 13 and 14.

The Board of Directors at a Board meeting of 28 December 2017, proposed at a Shareholders' Extraordinary General Meeting which took place on the same date after the Board meeting, the payment of a dividend distribution of €50 million or €41,6 thousand per share. The Board of Directors proposal was approved at the shareholders' meeting and the dividend was executed on the same day.

Share capital

There were no changes in the Bank's share capital during the year ended 31 December 2017.

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2017 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2017 and up to the date of this report except from Mr. Takis Phidia who was appointed on the Board of Directors of the Bank on 24 February 2017.

There were no significant changes in the distribution of responsibilities or compensation of the Board of Directors.

Bank Management

The Bank's Executive Committee as at 31 December 2017 and at the date of this report is shown on page 1.

Events after the balance sheet date

There were no material events after the balance sheet date, which have a bearing on the understanding of the financial statements.

Management Report (continued)

Auditors

According to the provisions of the Greek Law 4449/2017 and following relevant proposal of the Audit Committee, the Board of Directors of Eurobank Ergasias S.A. at its meeting on 24 February 2017 approved KPMG Certified Auditors A.E. (KPMG) being the successful audit firm of the tendering process for conducting the statutory audit of its financial statements (standalone and consolidated) for the period 2018-2022, subject to preceding every year both its Board of Directors proposal addressed to its Shareholders' General Meeting and the decision of the General Meeting for the appointment of KPMG as statutory auditor for the period 2018-2022, as well as receiving any other necessary approvals each time in force.

Following the decision of the said General Meeting for the appointment of KPMG as statutory auditor for the period 2018-2022, Eurobank Cyprus Ltd will also proceed to appoint KPMG as statutory auditor for the same period.

By Order of the Board

Michalis Louis
Chief Executive Officer

Nicosia, 30 April 2018

Independent Auditor's Report

To the Members of Eurobank Cyprus Ltd

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of parent company Eurobank Cyprus Ltd (the "Bank") give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the parent company financial statements which are presented in pages 13 to 93 and comprise:

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

The financial reporting framework that has been applied in the preparation of the 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 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.

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Independence

We remained independent of the Bank 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment provision on loans and advances to customers We focused on this area because the management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the impairment provision for loans and advances to customers. As loans and advances to customers comprise a large portion of the Bank's assets, and due to the significance of judgement used in estimating provisions, this is considered to be a key audit matter. Note 2 "Summary of significant accounting policies", Note 3 "Critical accounting estimates and judgments in applying accounting policies", Note 4 "Financial risk management" and Note 16 "Loans and advances to customers" to the financial statements provide detailed information on the estimation of provisions for impairment of loans and advances to customers as at 31 December 2017.	We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias: • The completeness and timing of recognition of loss events; • The measurement of individually assessed provisions, which is dependent on the valuation of collateral, the timing of cash flows and realisations; • The measurement of collective provisions, which is dependent upon key assumptions relating to the probability of default and loss given default. In obtaining sufficient audit evidence we: • Reviewed the design and operating effectiveness of controls pertaining to the credit approval process and independent collateral valuation; • Performed loan file reviews and other procedures to assess the completeness of the impairment watch list;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment provision on loans and advances to customers	• Traced impairment calculation inputs to appropriate source documents; • Reperformed impairment calculations on a sample basis; • Evaluated and tested the key assumptions and judgements adopted by management; • Assessed the disclosures made against the relevant accounting standards The results of the above procedures were satisfactory.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with 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 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 in 2008 by the Board of Directors of the Bank for the audit of the financial statements for the period from 21 December 2007 (date of incorporation) to 31 December 2008. Our appointment has been renewed annually, since then, by shareholder's resolution. The Bank obtained its banking license during 2008 and accordingly the first financial year after the Bank qualified as an EU PIE was for the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 9 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 26 April 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 Bank and which have not been disclosed in the financial statements or the 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 management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.

- In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the 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 George C. Kazamias.

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
PwC Central, 43 Demostheni Severi Avenue
CY-1080 Nicosia Cyprus

30 April 2018

Eurobank Cyprus Ltd

Income Statement
for the year ended 31 December 2017

	Note	**2017 €'000**	2016 €'000
Interest income	5	**105.689**	109.210
Interest expense	5	**(38.440)**	(40.514)
Net interest income		**67.249**	68.696
Banking fee and commission income	6	**27.794**	30.110
Banking fee and commission expense	6	**(7.120)**	(8.691)
Net banking fee and commission income		**20.674**	21.419
Net trading income	7	**56**	263
Net gains/(losses) from investment securities	8	**8.828**	(274)
Other income		**54**	-
		8.938	(11)
Operating income		**96.861**	90.104
Staff costs	9	**(16.891)**	(14.603)
Other operating expenses	10	**(12.616)**	(11.509)
Profit from operations before impairments		**67.354**	63.992
Impairment losses on loans and advances	16	**(15.800)**	(14.325)
Profit before tax and government levies		**51.554**	49.667
Government levy on customer deposits	23	**(4.924)**	(5.227)
Income tax expense	11	**(5.493)**	(6.349)
Profit for the year		**41.137**	38.091

The notes on pages 18 to 93 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income for the year ended 31 December 2017

	2017 €'000	2017 €'000	2016 €'000	2016 €'000
Profit for the year		**41.137**		38.091
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss:				
Available-for-sale financial assets (Note 17)				
- net changes in fair value, net of tax	**10.211**		7.064	
- transfer to profit or loss due to disposal and impairment, net of tax	**(946)**		274	
		9.265		7.338
Other comprehensive income for the year		**9.265**		7.338
Total comprehensive income for the year		**50.402**		45.429

The notes on pages 18 to 93 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet
at 31 December 2017

	Note	2017 €'000	2016 €'000
Assets			
Cash and balances with central banks	12	**505.904**	168.378
Loans and advances to banks	13	**2.337.755**	2.298.543
Investment in subsidiaries	14	**4**	1
Derivative financial instruments	15	**811**	10.472
Loans and advances to customers	16	**1.895.345**	1.817.465
Available-for-sale financial assets	17	**304.100**	236.011
Held-to-maturity investments	18	**232.237**	337.640
Intangible assets	19	**3.669**	2.785
Property, plant and equipment	20	**6.820**	7.270
Other assets	21	**1.887**	697
Total assets		**5.288.532**	4.879.262
Liabilities			
Due to other banks	22	**560.463**	522.359
Derivative financial instruments	15	**5.236**	1.402
Due to customers	23	**4.265.178**	3.908.262
Other liabilities	24	**47.797**	37.783
Total liabilities		**4.878.674**	4.469.806
Equity			
Share capital	25	**12.010**	12.010
Share premium	25	**245.384**	245.384
Other reserves		**16.215**	6.950
Retained earnings		**136.249**	145.112
Total equity		**409.858**	409.456
Total equity and liabilities		**5.288.532**	4.879.262

On 30 April 2018 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Michalis Louis, Chief Executive Officer

Demetris Shacallis, Chief Financial Officer

The notes on pages 18 to 93 form an integral part of these financial statements.

Eurobank Cyprus Ltd

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

	Share capital €'000	Share premium €'000	Available-for-sale revaluation reserve €'000	Retained earnings €'000	**Total €'000**
Balance at 1 January 2016	**12.010**	**245.384**	**(388)**	**107.021**	**364.027**
Other comprehensive income for the year	-	-	7.338	-	**7.338**
Profit for the year	-	-	-	38.091	**38.091**
Total comprehensive income for the year	**-**	**-**	**7.338**	**38.091**	**45.429**
Balance at 31 December 2016/ 1 January 2017	**12.010**	**245.384**	**6.950**	**145.112**	**409.456**
Other comprehensive income for the year	-	-	9.265	-	**9.265**
Profit for the year	-	-	-	41.137	**41.137**
Total comprehensive income for the year	**-**	**-**	**9.265**	**41.137**	**50.402**
Dividend paid (Note 25)	**-**	**-**	**-**	**(50.000)**	**(50.000)**
Balance at 31 December 2017	**12.010**	**245.384**	**16.215**	**136.249**	**409.858**

The notes on pages 18 to 93 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement
for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Profit before tax and government levies		**51.554**	49.667
Adjustments for:			
Amortisation of intangible assets	19	**850**	512
Depreciation of property, plant and equipment	20	**1.530**	1.520
Loss on disposal of property, plant and equipment	20	**3**	6
Impairment losses on loans and advances	16	**15.755**	14.336
Interest income on available-for-sale financial assets	5	**(10.105)**	(10.848)
Interest income on held-to-maturity instruments	5	**(9.794)**	(12.568)
Foreign exchange differences on investing activities		**11.647**	(2.518)
Profit on disposal of investments in subsidiaries	14	**(48)**	-
Profit on disposal of available-for-sale financial assets	8	**(944)**	(261)
Profit on redemptions of held-to-maturity investments	8	**(7.884)**	-
Net fair value loss on available-for-sale financial assets transferred to income statement due to impairment	8	**-**	535
		52.564	40.381
Changes in operating assets and liabilities			
Net increase in cash and balances with central banks		**(336.342)**	(128.797)
Net decrease/(increase) in loans and advances to banks		**396.342**	(53.878)
Net decrease/(increase) in derivative financial instruments		**13.495**	(6.832)
Net (increase)/decrease in loans and advances to customers		**(93.635)**	65.190
Net (increase)/decrease in other assets		**(1.190)**	113
Net increase in due to other banks		**38.104**	29.753
Net increase in due to customers		**356.916**	667.577
Net increase in other liabilities		**10.373**	3.521
		384.063	617.028
Government levy on customer deposits paid		**(4.924)**	(5.227)
Income tax paid		**(5.852)**	(6.242)
Net cash flows from operating activities		**425.851**	605.559
Cash flows from investing activities			
Investments in subsidiaries	14	**(4)**	-
Proceeds from sale of investments in subsidiaries	14	**49**	-
Purchases of intangible assets	19	**(1.734)**	(1.065)
Purchases of property, plant and equipment	20	**(1.090)**	(1.932)
Proceeds from sale of property, plant and equipment	20	**7**	7
Proceeds from disposal and redemptions of available-for-sale financial assets	17	**71.896**	33.919
Payments for acquisition of available-for-sale financial assets	17	**(141.546)**	-
Interest received on available-for-sale financial assets		**10.228**	12.005
Proceeds from redemption of held-to-maturity investments	18	**159.238**	68.109
Payments for acquisition of held-to-maturity investments	18	**(48.143)**	(40.291)
Interest received on held-to-maturity investments	18	**11.986**	13.191
Net cash flows from investing activities		**60.887**	83.943
Cash flows from financing activities			
Payment of dividend	25	**(50.000)**	-
Net cash flows used in investing activities		**(50.000)**	-
Net increase in cash and cash equivalents		**436.738**	689.502
Cash and cash equivalents at beginning of year	29	**2.404.921**	1.715.419
Cash and cash equivalents at end of year	29	**2.841.659**	2.404.921

The notes on pages 18 to 93 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

Eurobank Cyprus Ltd ("the Bank") is incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its registered office and business address is at 41 Arch. Makariou III Avenue, 5th floor, 1065 Nicosia, Cyprus.

Principal activity

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

As of the date of the authorisation of the financial statements, all IFRSs issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2016 have been endorsed 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 financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

These separate financial statements contain information about Eurobank Cyprus Ltd as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IFRS 10 "Consolidated Financial Statements" and the Cyprus Companies Law, Cap. 113 from the requirement to prepare consolidated financial statements as the Company and its subsidiary are included in the consolidated financial statements of its intermediate parent, Eurobank Ergasias S.A, which prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU that are available for public use. These consolidated financial statements are available at the Eurobank Ergasias S.A.' website (www.eurobank.gr).

The Bank's presentation currency is the Euro (€) being its functional currency. Except as indicated, financial information presented in Euro has been rounded to the nearest thousand.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations:

In making its assessment of the Bank's ability to continue as a going concern, the Board of Directors has taken into consideration the following:

a) *Position of the Group*

Greece's real GDP is expected to grow by 2,5% in 2018, according to the 2018 Budget from 1,6% in 2017 (European Commission Winter Forecast for 2017 and 2018 at 1,6% and 2,5%). The unemployment rate in November 2017 was 20,9%, based on ELSTAT data (31 December 2016: 23,4%). On the fiscal front, the 2016 Greece's primary balance registered a surplus of 3,77% of GDP outperforming the 0,50% of GDP Third Economic Adjustment Program (TEAP) target. According to the 2018 Budget the primary surplus for 2017 and 2018 is expected at 2,44% and 3,82% of GDP, respectively compared to targets of 1,75% and 3,50% for 2017 and 2018 in the TEAP.

On 22 January 2018 the Eurogroup welcomed the implementation of almost all of the agreed prior actions for the third review of the TEAP, following the staff level agreement on the 4 December 2017 Eurogroup. A small number (15 items) of prerequisite reforms from the third review is still pending and the Eurogroup called on the Greek authorities to complete them in the following period. The full completion of the remaining reforms will be verified by the Eurogroup Working Group on the basis of an assessment by the European institutions (European Commission and European Stability Mechanism). A positive assessment will pave the way for the release of the fourth tranche under the ESM programme. The tranche will amount to €6,7 billion, of which €5,7 billion will be disbursed immediately upon implementation of all prior actions and cover debt servicing needs, allow for further clearance of arrears, and support the build-up of cash buffers. The remaining €1,0 billion will be used for arrears clearance and will be disbursed in spring 2018, subject to positive reporting by the European institutions on the clearance of net arrears; and a confirmation from the European institutions that the unimpeded flow of e-auctions has continued. According to the ESM the total amount disbursed to Greece so far – not-including the aforementioned sub-tranche – amounts to €40,2 billion out of a total ESM loan of €86,5 billion. From these a cash-buffer of ca €27,5 billion will remain at the TEAP in August 2018 mainly as a result of lower bank recapitalization needs and the better than previously expected 2015-2017 primary surplus realisation. As of now, there is no agreement on the post – programme period relation between Greece and its official creditors.

The expected completion of the third program review has reduced the uncertainties that prevailed during the first months of the year 2017 and improved expectations for a further continuation of the increase in the domestic economic activity in 2018. The fourth review of TEAP is expected to start in late March 2018 and its timely completion would lead to the disbursement of an additional €11,7 billion in July 2018. The instalment together with the funds scheduled for the upcoming reviews of the TEAP and from potential future bond issuances will permit Greece to clear the existing stock of arrears and create a cash buffer in order to cover the financing needs for around 10 months after the end of the TEAP (August 2018).

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

<u>Going concern considerations (continued):</u>

a) *<u>Position of the Group (continued)</u>*

The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 Eurogroup decisions, the mobilisation of European Union (EU) funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilisation of the domestic economic environment, which are necessary conditions for the return of the country to a strong and sustainable growth path.

b) *<u>The Cyprus economy</u>*

Cyprus is experiencing a strong recovery. The solid economic performance of the Cypriot economy has continued in 2017 with particularly visible positive signals emanating from the property market, with rating agencies continuing to assign a positive outlook in their Cyprus ratings. DBRS was the latest agency to do so in December 2017 within its long-term sovereign rating of BB+.

Overall, in 2017 growth is expected to have reached 3.8%, making Cyprus one of the fastest growing economies in the euro area. Growth is expected to moderate in 2018 and 2019, to 3.2% and 2.8% respectively. The economy’s robust performance can be attributed to strong private consumption and solid export growth, as well as some support from public consumption. Private consumption benefitted from rapidly expanding employment across all sectors (which led to a marked decline in unemployment, including long-term unemployment) and rising compensation per employee. Wages and employment are expected to continue growing into 2018 and 2019, supporting private consumption.

Exports of services were strong, especially in the second and third quarters of 2017, linked to the ongoing tourism boom in Cyprus. This coincided with a certain rebound in goods exports. Meanwhile, import growth was more moderate in the first three quarters of 2017 compared to 2016, but both investment and imports have picked up in the last quarter of the year. After the surge in 2016, investment levelled off in 2017. It is projected to pick up in 2018, on the back of buoyant residential construction and plans for large tourism projects. In 2019, import growth is expected to strengthen, driven by rising consumption and investment, while export growth is set to slow given limited opportunities for further growth, especially in tourism where capacity constraints may become binding.

Inflation surprised on the downside, with HICP at 0.7% in 2017. Inflation was mainly driven by energy prices, while prices of processed and non-processed foods and industrial goods declined in the second half of the year. After two years in negative territory, core inflation turned marginally positive in 2017 due to higher service prices linked to increasing wages. Inflation in 2018 is expected to climb to 1.2%, mainly as a result of higher oil prices, and to 1.3% in 2019, amid higher domestic price pressures stemming from wage dynamics.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued):

c) *The Cyprus economy (continued)*

The Bank continues to believe that the business environment and projected economic growth will be conducive to business growth. The Bank envisages to advance through the successful implementation of the existing operating model while recognising and addressing the emergence of new opportunities.

2.2 Adoption of new and revised IFRS

(a) Amendments to standards adopted by the Bank

The following amendments to standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply from 1 January 2017:

IAS 7, Amendment-Disclosure Initiative

The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities.

The amendments of this standard had no significant impact on the financial statements.

IAS 12, Amendment-Recognition of Deferred Tax Assets for Unrealised Losses

The amendment clarifies that (a) unrealised losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use, (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, (c) the estimate of probable future taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realised by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that deductible temporary difference. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

The adoption of the amendment had no impact on the financial statements.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(a) Amendments to standards adopted by the Bank (continued)

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 12 'Disclosure of Interests in Other Entities': It is clarified that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale except for the requirement for summarized financial information.

The adoption of the amendment had no impact on the financial statements.

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective after 2017, as they have not yet been endorsed by the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 19, Amendment –Plan Amendment, Curtailment or Settlement (effective 1 January 2019, not yet endorsed by EU)

The amendment clarifies that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Additionally, the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The adoption of the amendment is not expected to impact the financial statements.

IAS 28, Amendment – Long Term Interests in Associates and Joint Ventures (effective 1 January 2019, not yet endorsed by EU)

The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting.

According to the amendment, any adjustments to the carrying amount of long term interests resulting from the application of IAS 28 should not be considered when applying the IFRS 9 requirements which apply to long term interests before applying the loss allocation and impairment requirements of IAS 28.

The adoption of the amendment is not expected to impact the financial statements.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IAS 40, Amendment-Transfers of Investment Property (effective 1 January 2018, not yet endorsed by EU)

The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence.

The adoption of the amendment is not expected to impact the financial statements.

IFRS 2, Amendment-Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)

The amendment addresses (a) the measurement of cash-settled share-based payments, (b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings.
Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. It also clarifies that the liability of cash-settled share-based payment modified to equity-settled one is derecognised and the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted and any difference is recognised in profit or loss immediately. Furthermore, a share-based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature.

The adoption of the amendment is not expected to impact the financial statements.

IFRS 4, Amendment-Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018)

The amendment addresses the accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the forthcoming new insurance contracts Standard. It introduces two options for entities that issue insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance, allowing them to continue to apply IAS 39 'Financial Instruments: Recognition and Measurement' while they defer the application of IFRS 9 until 1 January 2021 at the latest.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 4, Amendment-Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018) (continued)

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets, effectively resulting in IAS 39 accounting for those designated financial assets. This approach can be used provided that the entity applies IFRS 9 in conjunction with IFRS 4 and classifies financial assets as fair value through profit or loss in accordance with IFRS 9, when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39.

The amendment is not relevant to the Bank's activities.

Transition to IFRS 9 'Financial Instruments and impact assessment'

In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' effective 1 January 2018, which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

(i) Classification and measurement

IFRS 9 establishes a new classification and measurement approach for all types of financial assets that reflects the entity's business model for managing the assets and their contractual cash flow characteristics. IFRS 9 requires financial assets to be classified into one of the following measurement categories: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for sale.

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest (SPPI). Financial assets will be measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. All other financial assets will be classified at FVTPL.

An entity may at initial recognition, designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value through OCI. This election is made on an investment-by-investment basis.

Under IFRS 9, embedded derivatives in contracts where the host is a financial asset in the scope of the standard are no longer bifurcated. Instead, the hybrid financial instrument is assessed for classification as a whole.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(i) Classification and measurement (continued)

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to the income statement unless such a presentation would create or enlarge an accounting mismatch. Under IAS 39, all fair value changes of liabilities designated at FVTPL are recognised in the income statement unless this would create or enlarge an accounting mismatch.

Business model assessment

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realise cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. Financial assets that are held for trading or managed on a fair value basis will be measured at FVTPL.

The Bank's approach is to perform the business model assessment consistently with its operating model and the information provided to key management personnel. In making the above assessment the Bank will consider a number of factors including:
- the stated policies and objectives for each portfolio;
- how the performance of each portfolio is evaluated and reported;
- the risks associated with the performance of the business model and how those risks are managed;
- how managers are compensated;
- past experience on how the cash flows from those portfolios were collected and how the Bank's stated objective for managing the financial assets is achieved; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Irrespective of their frequency and value, sales due to an increase in the financial assets' credit risk and sales made due to liquidity needs in case of an unexpected stress case scenario, are consistent with a hold-to-collect business model.

SPPI assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. This will include an assessment of whether a financial asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(i) Classification and measurement (continued)

Assessment of changes to the classification and measurement on transition

For the purpose of the transition to IFRS 9, the Bank is carrying out a business model assessment across various portfolios and a detailed review of the contractual terms (SPPI review) for its debt instruments portfolios to determine any potential changes to the classification and measurement. The assessment is being performed based on the facts and circumstances that exist at the date of initial application i.e. 1/1/2018. Furthermore, it is performed on a sample basis where contracts are of standardised form. The assessment for the remaining portfolio is being performed on an individual basis. The business model assessment and the SPPI review are not expected to result in any significant changes compared to how financial assets are measured under IAS 39, except where noted below. In particular:
- loans and advances to banks and customers that are measured at amortised cost under IAS 39, are also expected to be measured at amortised cost under IFRS 9. Limited cases are expected to fail the SPPI test which are to be measured at FVTPL;
- the majority of debt securities classified as available-for-sale under IAS 39, are expected to be measured at FVOCI;
- held-to-maturity investment securities that are measured at amortised cost under IAS 39, are expected to be measured at amortised cost or FVOCI depending on the business model within which they are held;
- trading and derivative assets that are measured at FVTPL under IAS 39 are also expected to be measured at FVTPL under IFRS 9;
- equity securities classified as available-for-sale under IAS 39 are expected to be measured at FVTPL under IFRS 9.

(ii) Impairment of financial assets

IFRS 9 introduces an expected credit loss (ECL) model that replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognised and will apply to a broader population of financial instruments compared to IAS 39. The measurement of ECL will require the use of complex models and significant judgment about future economic conditions and credit behaviour.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

The new impairment model, which introduces a "three stage approach" that will reflect changes in credit quality since initial recognition, will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Accordingly, no impairment loss will be recognised on equity investments.

Upon initial recognition of instruments in scope of the new impairment principles, the Bank will record a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk since initial recognition, a loss allowance equal to lifetime ECL will be recognised, arising from default events that are possible over the expected life of the instrument. Financial assets for which 12-month ECL are recognised will be considered to be in 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk will be allocated in 'stage 2', while financial assets that are considered to be credit impaired will be in 'stage 3'. The loss allowance for purchased or originated credit impaired (POCI) financial assets will always be measured at an amount equal to lifetime ECL, as explained below.

Allocation of Exposures to Stages

The Bank will distinguish financial assets between those which are measured based on 12-month ECLs (stage 1) and those that carry lifetime ECLs (stage 2 and 3), depending on whether there has been a significant increase in credit risk as evidenced by the change in the risk of default occurring on these financial assets since initial recognition.

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definitions. In particular, the Bank will determine that financial instruments are in stage 3 by applying as consistent measures of default across all of its portfolios:

- the objective criterion of 90 days past due, and;
- the existence of unlikeness to pay (UTP) criteria.

Accordingly, upon transition, the Bank considers all non-performing exposures in accordance with EBA definitions as credit-impaired and classifies those exposures at stage 3 for financial reporting purposes.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

Purchased or originated credit impaired (POCI) financial assets, which include assets purchased at a deep discount and substantially modified assets arising from derecognition of the original asset and are considered originated credit impaired, are not subject to stage allocation and are always measured on the basis of lifetime ECL. The Bank will recognise interest income of financial assets at stage 3 as well as POCI by applying the effective interest rate (EIR) on their net carrying amount.

Financial assets that experience a significant increase in credit risk since initial recognition will be in stage 2. In assessing whether a financial asset has experienced a significant increase in credit risk since initial recognition, the Bank intends to use a combination of quantitative, qualitative and backstop criteria indicatively including:

- relative changes on the residual lifetime probability of default;
- absolute thresholds on the residual lifetime probability of default;
- relative changes on credit risk ratings;
- watch list status;
- forbearance; and
- 30 days past due as backstop indicator.

Management may apply temporary individual or collective overlays on exposures sharing the same credit risk characteristics to take into account specific situations which otherwise would not be fully reflected in the impairment models.

Hence, upon transition, the Bank, considers all performing forborne loans as stage 2, along with any performing exposures that have been assessed to have experienced a significant increase in credit risk since initial recognition.

The Bank will classify all remaining financial assets which are not classified at stage 2, 3 or POCI in stage 1, measured based on 12-month ECL. The Bank will recognise interest income of financial assets at stage 2 and at stage 1, by applying the EIR on their gross carrying amount.

When the criteria for stage 2 classification are no longer met, and the financial asset is not credit impaired, it will be reclassified to stage 1. In addition, subsequent transfers from stage 3 to stage 2 will take place when the financial asset ceases to be credit impaired based on the assessment as described above.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 ‘Financial Instruments and impact assessment’ (continued)

(ii) Impairment of financial assets (continued)

Measurement of expected credit losses

As described above, if the credit risk of a financial instrument that is not classified as POCI has not increased significantly at the reporting date compared to its origination date, the loss allowance will be measured at an amount equal to 12 – month ECLs. The 12 – month ECLs represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months.

In cases where a significant increase in credit risk on a financial instrument has been identified at the reporting date since initial recognition date, the measurement of ECLs will be conducted on a lifetime basis. Lifetime ECLs represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.

The measurement of ECLs will be an estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered.

For the purposes of measuring ECL, the Bank will estimate expected cash shortfalls, which reflect the cash flows expected from all possible sources including collateral and other credit enhancements that are part of the contractual terms and are not recognised separately. In the case of a collateralised financial instrument, the estimated expected cashflows related to the collateral reflect the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable.

ECLs will be calculated over the maximum contractual period over which the Bank is exposed to credit risk. The maximum contractual period is defined based on the substantive terms of the instrument, including the Bank’s ability to demand repayment or cancellation and the customer’s ability to require extension. However, for revolving credit facilities (i.e. those that include both a loan and an undrawn commitment component) the period of exposure is determined in accordance with the Bank’s expected credit risk management actions to mitigate credit risk, including terminating or limiting credit exposure. In doing so, the Bank will consider its normal credit risk mitigation process, its past practice, future intentions and expected credit risk mitigation actions, the period over which the Bank was exposed to credit risk on similar instruments, and the length of time for defaults to occur on similar instruments following a significant increase in credit risk.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(c) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 ‘Financial Instruments and impact assessment’ (continued)

(ii) Impairment of financial assets (continued)

ECLs on individually large credit-impaired loans, above pre-defined materiality thresholds set in accordance with the Group’s risk management policy are measured individually. This incorporates borrower specific information, collective historical experience of losses and forward-looking macroeconomic information.

ECL Key inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF) and the prepayment rate. Generally, the Bank intends to derive these parameters from internally developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

The PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime. In accordance with IFRS 9, the Bank will use point-in-time unbiased PDs that will incorporate forward looking information and macroeconomic scenarios.

EAD represents the exposure that the Bank expects to be owed at the event of default. The EAD of a financial asset will be the gross carrying amount at default. In estimating the EAD, the Bank will use historical observations and forward looking forecasts to reflect payments of principal and interest and any potential drawdowns on lending commitments.

LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure and is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD.

The CCF factor is used to convert the amount of a credit line and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring. The prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Transition to IFRS 9 'Financial Instruments and impact assessment' (continued)

(ii) Impairment of financial assets (continued)

Forward looking information

In assessing whether credit risk has increased significantly since initial recognition and measuring ECL the Bank will incorporate forward looking information. The Bank will evaluate a range of forward looking economic scenarios in order to achieve an unbiased and probability weighted estimate of ECL.

(iii) Hedge accounting

IFRS 9 includes a new general hedge accounting model which aligns hedge accounting more closely with risk management. Under the new model, more hedging strategies may qualify for hedge accounting, new hedge effectiveness requirements apply and discontinuation of hedge accounting will be allowed only under specific circumstances. The IASB currently has a separate project for the accounting of macro hedging activities. Until the above project is completed, entities have an accounting policy choice to continue applying the hedge accounting requirements in IAS 39.

The Bank intends to elect to continue applying IAS 39. However, the Bank will provide the expanded disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

(iv) Comparative information on transition

The new requirements of IFRS 9 will be applied retrospectively by adjusting the Bank's balance sheet on the date of transition on 1 January 2018. The Bank intends to apply the exemption not to restate comparative figures for prior periods, therefore the Bank's 2017 comparatives in the 2018 financial statements will be presented on an IAS 39 basis.

(v) Impact assessment

Based on the available information and current implementation status, the Management of the Bank currently estimates that the impact of adopting IFRS 9 on the equity attributable to shareholders of the Bank on 1 January 2018 will not be material. Any impact primarily arises due to the change in provisions for loan impairment on adoption of IFRS 9. The Bank continues to refine and re-calibrate its models for the latest data as well as review the implementation process.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 9, Amendment–Prepayment features with negative compensation and modifications of financial liabilities (effective 1 January 2019, not yet endorsed by EU)

The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortised cost or at FVOCI, depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation).Therefore, measurement of these financial assets will be regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendment would probably result in the measurement of these financial assets at FVTPL.

The amendment also confirms the modification accounting of financial liabilities under IFRS 9. In specific, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised in profit or loss.

The adoption of the amendment is not expected to impact the financial statements.

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments (effective 1 January 2018)

IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognise and replaces existing revenue recognition guidance, including IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’ and IFRIC 13 ‘Customer Loyalty Programs’.

IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 ‘Financial Instruments’ or IAS 39 ‘Financial Instruments: Recognition and Measurement’, IFRS 10 ‘Consolidated Financial Statements’, IFRS 11 ‘Joint Arrangements’, IAS 27 ‘Separate Financial Statements’ and IAS 28 ‘Investments in Associates and Joint Ventures’;
- Lease contracts within the scope of IAS 17 ‘Leases’ (or IFRS 16 ‘Leases’); and
- Insurance contracts within the scope of IFRS 4 ‘Insurance Contracts’.

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments (effective 1 January 2018) (continued)

IFRS 15 specifies that revenue should be recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognising revenue for performance obligations as they are satisfied and the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer.

Extensive disclosures will be required in relation to revenue recognised and expected from existing contracts.

IFRS 15 was amended in April 2016 to provide several clarifications, including that in relation to the identification of the performance obligations within a contract.

The Bank, is currently in the process of finalising the impact assessment of IFRS 15, however the adoption of the standard is not expected to have a significant impact on the financial statements.

IFRS 16, Leases (effective 1 January 2019)

IFRS 16, which supersedes IAS 17 ‘Leases’ and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17. The new standard provides for the recognition of a ‘right-of-use-asset’ and a ‘lease liability’ upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

Accordingly, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the ‘right-of-use-asset’ and the interest expense on the ‘lease liability’. The recognition of assets and liabilities by lessees, as described above, is not required for certain short term leases and leases of low value assets. Additionally, the accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

The Bank is currently assessing the impact of IFRS 16 on its financial statements, which is impracticable to quantify as at the date of the publication of these financial statements. Operating lease commitments currently in place are set out in Note 26.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 17, Insurance Contracts (effective 1 January 2021, not yet endorsed by EU)

IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features that an entity issues provided it also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e. amounts repaid to policyholders even in the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Bank's activities.

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018)

IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organisations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss.

The adoption of the amendment is not expected to impact the financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019, not yet endorsed by EU)

The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2015-17 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements': It is clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party remeasures the entire previously held interest in the assets and liabilities of the joint operation at fair value.
- If a party obtains joint control, then the previously held interest is not remeasured.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019, not yet endorsed by EU) (continued)

IAS 12 ‘Income Taxes’: It is clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognised in profit or loss, other comprehensive income or equity, depending on where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognised.

IAS 23 ’Borrowing costs’: It is clarified that any borrowing originally made to develop a qualifying asset should be treated as part of general borrowings when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The adoption of the amendments is not expected to impact the financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective 1 January 2018, not yet endorsed by EU)

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognised the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt.

The adoption of the interpretation is not expected to impact the financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments (effective 1 January 2019, not yet endorsed by EU)

The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 ‘Income Taxes’ when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates determined applying IFRIC 23.

According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty and the entity should assume that a tax authority with the right to examine tax treatments will examine them and will have full knowledge of all relevant information.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRIC 23, Uncertainty over Income Tax Treatments (effective 1 January 2019, not yet endorsed by EU) (continued)

If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it should determine its accounting for income taxes consistently with that tax treatment. If it concludes that it is not probable that the treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (i.e. the most likely amount or the expected value method).

Judgments and estimates made for the recognition and measurement of the effect of uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (e.g. actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).

The adoption of the interpretation is not expected to impact the financial statements.

2.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro thousands, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in a foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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 of the security.

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation (continued)

(ii) Transactions and balances (continued)

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2.4 Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, forward currency agreements and interest rate options (both written and purchased), currency and interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives, embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as hedges of the exposure to changes in the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

2 Summary of significant accounting policies (continued)

2.4 Derivative financial instruments and hedge accounting (continued)

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged item for which the effective interest method is not used remains until the disposal of the equity security.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify and/or are not designated for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under “Net trading income”.

The fair values of derivative instruments held for trading and used for hedging purposes are disclosed in Note 15.

2.5 Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in the income statement on an accruals basis, using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Then interest income is calculated on the recoverable amount.

2 Summary of significant accounting policies (continued)

2.6 Fees and commissions

Fees and commissions are generally recognised in the income statement on an accruals basis. Commissions and fees relating to foreign exchange transactions, private banking activities, trade services, remittances and bank charges are recognised on the completion of the underlying transaction.

2.7 Operating leases

Accounting for leases as lessee

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

2.8 Income taxation

(i) Current income tax

Income tax payable/(receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense /(income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income.

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

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

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

The Bank does not offset income tax liabilities and current income tax assets.

2 Summary of significant accounting policies (continued)

2.8 Income taxation (continued)

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment and amortisation of computer software.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to items recognised in other comprehensive income, is also recognised in the other comprehensive income.

2.9 Employee benefits

The Bank and the employees contribute to a defined contributions scheme.

Under the defined contributions scheme the Bank and members of staff pay fixed contributions into a separate provident fund. The Bank's contributions are recognised in the period they relate to and included in staff costs in the income statement.

The Bank and the members of staff also contribute to the Government Social Insurance Fund based on members of staff salaries.

2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is recognised in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognised in the income statement as expenses as occurred.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values, over their estimated useful lives. The estimated useful economic lives are as follows:

	Useful economic life
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 to 12 years
Leasehold property improvements	12 years
Computer hardware	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in "other operating expenses" in the income statement.

2.11 Computer software

Acquired computer software licenses/programs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method to allocate the cost of computer software, over their estimated useful lives. The annual amortisation rates used range between 8% and 33.33%.

Gains and losses on disposal of computer software are determined by comparing proceeds with carrying amount and are included in "other operating expenses" in the income statement.

2.12 Impairment of non-financial assets

Non-financial 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.

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities

2.13.1 Financial assets

The Bank classifies its financial assets in the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or it is a derivative (except for derivatives that are financial guarantee contracts or designated and effective hedging instruments).

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss when the following apply:

a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
b) financial assets share the same risks with financial liabilities and those risks are managed and evaluated on a fair value basis; or
c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or
b) those that the Bank upon initial recognition designates as available for sale.

Loans and receivables are reported in the balance sheet as loans and advances to banks or customers.

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.1 Financial assets (continued)

(iii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
b) those that the Bank designates as available-for-sale; and
c) those that meet the definition of loans and receivables.

(iv) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(v) Accounting treatment

Purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Loans originated by the Bank are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value; transaction costs are taken directly to the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and transferred to the available for sale revaluation reserve in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest rate method is recognised in the income statement.

Dividends on equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Interest income and expense on financial assets is recognised in the income statement. Interest income on financial assets is included in "Interest income" and interest expense on financial liabilities is included in "Interest expense".

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.2 Financial liabilities

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss have two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

The Bank designates financial liabilities at fair-value-through-profit-or-loss when any of the following apply:

a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

2.13.3 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised, or recognised if under securities borrowing or reverse repurchase agreements, because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

2.14 Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   - adverse changes in the payment status of borrowers in the portfolio; and
   - national or local economic conditions that correlate with defaults on the assets in the portfolio.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "impairment losses on loans and advances" whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in "Gains less losses from investment securities".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Available-for-sale assets

The Bank assesses at each reporting date whether there is objective evidence that an asset classified as available for sale is impaired. Particularly, in the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.15 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") continue to be recorded in the Bank's balance sheet while the counterparty liability is included in amounts due to other banks or due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the period of the repo agreements using the effective interest method.

(ii) Securities lending

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.16 Fiduciary activities

Where the Bank acts in a fiduciary capacity such as nominee, trustee or agent, assets and related income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements.

2.17 Related party transactions

Related parties include the parent and ultimate controlling party, fellow subsidiaries, other group companies under common control, directors and key management personnel, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature within the same category are disclosed on an aggregate basis.

2.18 Trade and other payables

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

2.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Bank becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Bank are not provided in advance. Provisions are not recognised for future operating losses.

2 Summary of significant accounting policies (continued)

2.20 Due to banks and due to customers

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

2.21 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium is the difference between the fair value of the consideration receivable for the issue of 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.

2.22 Offsetting financial instruments

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

2.23 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial amount, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is recognised in the income statement within other operating expenses.

2 Summary of significant accounting policies (continued)

2.24 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand, all interbank placements and reverse sale agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

2.25 Investments in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through profit or loss 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. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

3 Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Bank's management makes various judgments, estimates and assumptions that affect the reported amounts of assets and liabilities recognised in the financial statements within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances to customers

The Bank reviews its loan portfolios to assess impairment continuously. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating there is measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

For loans assessed on an individual basis, on a case by case basis, management uses its best estimate to determine the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial position and the net realisable value of any underlying collaterals.

At 31 December 2017, if the recoverable amounts increased by 10%, provision for impairment losses on loans and advances to customers would have been €2.758 thousand (2016: €5.389 thousand) lower, while a 10% decrease would result in €3.596 thousand (2016: €4.996 thousand) increase in provisions for impairment losses.

4 Financial risk management

4.1 Use of financial instruments

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers, at both fixed and floating rates, and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates. The Risk Committee places trading limits on the level of exposure that can be taken in relation to overnight and intra-day market positions as well as limits in longer durations. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally concluded to hedge outstanding positions, thereby controlling the variability in the net cash amounts required to offset market positions.

4.2 Financial risk factors

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and equity risk) and liquidity risk. The Bank's overall risk management policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Bank's financial performance, financial position and cash flows.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are recognised for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Therefore, management carefully manages its exposure to credit risk.

The Bank minimises the risk by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.

In addition, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted (excluding related party balances, Note 30). Facilities higher than these limits are authorised and monitored at group level.

(a) Credit risk measurement and management - investment securities and derivatives

Derivative financial instruments held by the Bank are primarily with Eurobank Ergasias S.A., and as such the Bank considers that these carry the credit risk of Eurobank Ergasias S.A. Therefore, as this is the parent entity of the Bank, the Bank does not have any specific policies in place to monitor this credit risk.

(b) Credit risk measurement – Loans and advances

The Bank applies various credit rating systems for the assessment and measurement of credit risk. These systems assign a specific rating to every borrower/counterparty which reflects the creditworthiness of the particular borrower and consequently the ability to repay funds on a timely manner. Credit rating takes under consideration various quantitative and qualitative factors. The Bank periodically reviews rating systems and adapts them to particular market conditions, products or borrowers.

Risk limit control and mitigation policies – Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances to customers are:

- Cash deposits and other cash equivalents;
- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Lien agreement with the parent bank.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held

The table below represents the maximum credit risk exposure of the Bank at 31 December 2017 and 2016, without taking into account any collateral held:

	2017	2016
	€'000	€'000
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	**2.337.755**	2.298.543
Derivative financial instruments	**811**	10.472
Loans and advances to customers:		
Retail lending:		
- Mortgage	**10.318**	11.750
- Consumer	**12.624**	5.948
- Affluent banking	**631**	-
- Credit cards	**514**	473
Wholesale lending:		
- Large corporate	**912.676**	837.108
- Wealth management	**268.105**	259.255
- International business banking	**540.421**	661.229
- Shipping	**150.056**	41.702
Available-for-sale financial assets - debt securities	**302.082**	235.192
Held-to-maturity investments	**232.237**	337.640
Other assets	**1.153**	238
Total	**4.769.383**	4.699.550
Credit risk exposures relating to off-balance sheet items (Note 27):		
Guarantees and letters of credit	**128.167**	122.286
Approved unutilised credit facilities	**312.544**	283.945
Total	**440.711**	406.231

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Loans and advances to banks

The credit quality of placements and settlement balances with banks and reverse repurchase agreements receivable from banks, based on rating agencies' counterparty ratings, is analysed as follows as at 31 December 2017 and 2016:

	2017	2016
	€'000	€'000
Aaa to Aa3	**358**	95.103
A1 to A3	**66.664**	114.068
Baa1 to Baa3	**53.544**	5.839
Ba1 to Ba3	**34.283**	57.006
Caa1 to Caa3 (1)	**2.181.299**	2.026.071
Not rated	**1.607**	456
	2.337.755	2.298.543

(1) Loans and advances to banks include reverse repurchase agreements of €2.118.536 thousand (2016: €1.928.817 thousand) (Note 13). The reverse repurchase agreements receivables as at 31 December 2017 represent money market placements fully secured by investment grade bonds. The majority of these bonds are ECB Eligible bonds amounting to approximately €2,0 billion. The reverse repurchase agreements receivables as at 31 December 2016 represented money market placements fully secured by ECB Eligible bonds. The majority of these were bonds issued by the European Financial Stability Fund amounting to approximately €1,9 billion.

4.2.1.3 Loans and advances to customers

The section below provides a detailed overview of the Bank's exposure to credit risk arising from its customer lending portfolios.

(a) Credit quality of loans and advances to customers

Loans and advances to customers are classified as "neither past due nor impaired", "past due but not impaired" and "past due and impaired". Loans reported as "Neither past due nor impaired" include loans with no contractual payments in arrears and no other indications of impairment. "Past due but not impaired" category includes loans with contractual payments overdue by at least one day, but which are not impaired unless specific information indicates to the contrary.

The following tables present the total gross amount, representing the maximum exposure to credit risk gross of impairment allowance, of loans and advances that are classified as non-impaired (i.e. "neither past due nor impaired" and "past due but not impaired") and those classified as impaired (i.e. "past due and impaired"). They also present the total impairment allowance recognised in respect of all loans and advances, the total net amount, as well as the value of collateral held as security to mitigate credit risk. The value of collateral presented in the tables below is capped to the respective gross loan amount.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2017					
	Non-impaired					
	Neither past due nor impaired €'000	Past due but not impaired €'000	Impaired €'000	Total gross amount €'000	Impairment allowance €'000	**Total net amount €'000**
Retail lending:						
- Mortgage	10.318	-	-	10.318	-	**10.318**
- Consumer	11.141	1.501	45	12.687	(63)	**12.624**
- Affluent banking	634	-	-	634	(3)	**631**
- Credit card	516	-	3	519	(5)	**514**
Wholesale lending:						
- Large corporate	888.363	6.267	56.986	951.616	(38.940)	**912.676**
- Wealth management	252.695	4.787	42.052	299.534	(31.429)	**268.105**
- International business banking	539.802	851	11	540.664	(243)	**540.421**
- Shipping	145.609	5.441	-	151.050	(994)	**150.056**
Total	**1.849.078**	**18.847**	**99.097**	**1.967.022**	**(71.677)**	**1.895.345**
Value of collateral	**1.700.476**	**9.115**	**80.985**	**1.790.576**		

	31 December 2016					
	Non-impaired					
	Neither past due nor impaired €'000	Past due but not impaired €'000	Impaired €'000	Total gross amount €'000	Impairment allowance €'000	**Total net amount €'000**
Retail lending:						
- Mortgage	11.767	-	-	11.767	(17)	**11.750**
- Consumer	5.936	59	48	6.043	(95)	**5.948**
- Affluent banking	-	-	-	-	-	**-**
- Credit card	455	22	13	490	(17)	**473**
Wholesale lending:						
- Large corporate	790.720	10.747	90.040	891.507	(54.399)	**837.108**
- Wealth management	237.722	3.928	42.244	283.894	(24.639)	**259.255**
- International business banking	660.775	873	8	661.656	(427)	**661.229**
- Shipping	42.463	-	-	42.463	(761)	**41.702**
Total	**1.749.838**	**15.629**	**132.353**	**1.897.820**	**(80.355)**	**1.817.465**
Value of collateral	**1.620.293**	**12.340**	**93.216**	**1.725.849**		

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

<u>Loans and advances neither past due nor impaired</u>

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired as at year end can be assessed by reference to the Bank's standard grading system.

The following tables present the risk classification of loans and advances at their gross amount that are neither past due nor impaired, based on the Bank's credit assessment methodology:

	2017	2016
	€'000	€'000
Strong	**1.217.847**	1.517.912
Satisfactory risk	**571.001**	158.193
Watch list	**60.230**	73.733
Total	**1.849.078**	1.749.838

<u>Loans and advances past due but not impaired</u>

The following tables present the ageing analysis of past due but not impaired loans and advances by product line at their gross amounts before any impairment allowance:

	31 December 2017								
	Retail lending				Mortgage lending				
	Mortgage	Consumer	Affluent banking	Credit card	Large corporate	Wealth management	International business banking	Shipping	**Total**
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	**€'000**
Up to 29 days	-	1.495	-	-	6.050	4.374	849	5.441	**18.209**
30 to 59 days	-	2	-	-	138	73	2	-	**215**
60 to 89 days	-	4	-	-	79	340	-	-	**423**
90 to 179 days	-	-	-	-	-	-	-	-	-
180 to 360 days	-	-	-	-	-	-	-	-	-
More than 360 days	-	-	-	-	-	-	-	-	-
Total	**-**	**1.501**	**-**	**-**	**6.267**	**4.787**	**851**	**5.441**	**18.847**
Value of collateral	**-**	**1.001**	**-**	**-**	**4.912**	**2.394**	**808**	**-**	**9.115**

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Loans and advances past due but not impaired (continued)

	31 December 2016								
	Retail lending				Mortgage lending				
	Mortgage	Consumer	Affluent banking	Credit card	Large corporate	Wealth management	International business banking	Shipping	**Total**
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	**€'000**
Up to 29 days	-	51	-	16	4.367	3.058	857	-	**8.349**
30 to 59 days	-	4	-	3	1.141	12	5	-	**1.165**
60 to 89 days	-	4	-	3	5.239	858	11	-	**6.115**
90 to 179 days	-	-	-	-	-	-	-	-	-
180 to 360 days	-	-	-	-	-	-	-	-	-
More than 360 days	-	-	-	-	-	-	-	-	-
Total	**-**	**59**	**-**	**22**	**10.747**	**3.928**	**873**	**-**	**15.629**
Value of collateral	**-**	**-**	**-**	**-**	**7.708**	**3.824**	**808**	**-**	**12.340**

Loans and advances past due and impaired

As at 31 December 2017, loans and advances past due and impaired amounted to €99.097 thousand (2016: €132.353 thousand).

(b) Geographical and industry concentrations of loans and advances to customers

The Bank holds diversified portfolios across markets and countries and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

The tables in Note 4.2.1.5 break down the Bank's exposure into loans and advances to customers at their net amounts, by product line, industry and geographical region.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance

Forbearance consists of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments.

The following table presents a summary of the types of the Bank's forborne activities (cumulative as of the balance sheet date):

	2017	2016
	€'000	€'000
Forbearance measures:		
Interest only schedule	**23.719**	29.965
Reduced payment schedule	**20.868**	29.778
Term extension	**51.354**	52.702
Arrears capitalisation	**2.804**	2.742
Other	**-**	10.702
Total amount net of impairment allowance	**98.745**	125.889

The following table presents a summary of the credit quality of forborne loans and advances to customers:

	31 December 2017		
	Total loans & advances	**Forborne loans & advances**	**% of forborne loans & advances to total loans & advances**
	€'000	**€'000**	
Neither past due nor impaired	1.849.078	84.174	4,6
Past due but not impaired	18.847	384	2,0
Past due and impaired	99.097	27.419	27,7
Total gross amount	**1.967.022**	**111.977**	**5,7**
Impairment allowance	**(71.677)**	**(13.232)**	
Total net amount	**1.895.345**	**98.745**	**5,2**
Collateral received	**1.790.576**	**104.669**	

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance (continued)

	31 December 2016		
	Total loans & advances	**Forborne loans & advances**	**% of forborne loans & advances to total loans & advances**
	€'000	**€'000**	
Neither past due nor impaired	1.749.838	100.789	5,8
Past due but not impaired	15.629	4.554	29,1
Past due and impaired	132.353	31.400	23,7
Total gross amount	**1.897.820**	**136.743**	**7,2**
Impairment allowance	**(80.355)**	**(10.854)**	
Total net amount	**1.817.465**	**125.889**	**6,9**
Collateral received	**1.725.849**	**126.901**	

The following table presents the Bank's exposure to forborne loans and advances by product/activity line:

	2017	2016
	€'000	€'000
Retail lending:		
- Mortgage	**-**	285
- Consumer	**19**	39
- Affluent banking	**23**	-
- Credit cards	**-**	-
Wholesale lending:		
- Large corporate	**54.622**	76.543
- Wealth management	**44.081**	49.022
- International business banking	**-**	-
- Shipping	**-**	-
Total amount net of impairment allowance	**98.745**	125.889

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	2017	2016
	€'000	€'000
Cyprus	**92.983**	121.789
Other European countries	**4.699**	3.015
Other countries	**1.063**	1.085
Total amount net of impairment allowance	**98.745**	125.889

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2017 and 2016 based on Moody's ratings or their equivalent:

	31 December 2017		
	Available-for-sale debt securities €'000	Held-to-maturity investments €'000	**Total €'000**
Aaa	41.854	13.679	**55.533**
Aa1 to Aa3	-	19.191	**19.191**
A1 to A3	-	4.316	**4.316**
Baa1 to Baa3	-	1.521	**1.521**
Ba1 to Ba3	172.698	193.530	**366.228**
B1 to B3	63.578	-	**63.578**
Caa1 to Caa3	16.673	-	**16.673**
Not rated	7.279	-	**7.279**
Total	**302.082**	**232.237**	**534.319**

	31 December 2016		
	Available-for-sale debt securities €'000	Held-to-maturity investments €'000	**Total €'000**
Aaa	47.475	15.385	**62.860**
Aa1 to Aa3	-	22.751	**22.751**
A1 to A3	-	4.492	**4.492**
Baa1 to Baa3	-	2.698	**2.698**
Ba1 to Ba3	76.708	-	**76.708**
B1 to B3	21.977	292.314	**314.291**
Caa1 to Caa3	77.498	-	**77.498**
Not rated	11.534	-	**11.534**
Total	**235.192**	**337.640**	**572.832**

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

(a) Geographical sectors

The following table analyses the Bank's main credit exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by geographical region as at 31 December 2017 and 2016. For this table, the Bank has allocated exposures to regions based on the country of activity/economic interest of counterparties.

	31 December 2017			
	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets				
Loans and advances to banks	50.389	2.231.359	56.007	**2.337.755**
Derivative financial instruments	258	491	62	**811**
Loans and advances to customers:				
Retail lending:				
- Mortgage	10.318	-	-	**10.318**
- Consumer	12.624	-	-	**12.624**
- Affluent banking	631	-	-	**631**
- Credit cards	505	3	6	**514**
Wholesale lending:				
- Large corporate	482.398	385.423	44.855	**912.676**
- Wealth management	191.024	70.030	7.051	**268.105**
- International business banking	105.711	68.596	366.114	**540.421**
- Shipping	21.651	112.106	16.299	**150.056**
Available-for-sale financial assets – debt securities	120.712	142.142	39.228	**302.082**
Held-to-maturity investments	193.529	38.708	-	**232.237**
Other assets	250	867	36	**1.153**
Total	**1.190.000**	**3.049.725**	**529.658**	**4.769.383**
Off-balance sheet items				
Guarantees and letters of credit	122.800	4.905	462	**128.167**
Approved unutilised credit facilities	251.354	28.432	32.758	**312.544**
Total	**374.154**	**33.337**	**33.220**	**440.711**

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2016			
	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets				
Loans and advances to banks	50.522	1.996.503	251.518	**2.298.543**
Derivative financial instruments	494	9.806	172	**10.472**
Loans and advances to customers:				
Retail lending:				
- Mortgage	11.750	-	-	**11.750**
- Consumer	5.946	2	-	**5.948**
- Affluent banking	-	-	-	**-**
- Credit cards	471	2	-	**473**
Wholesale lending:				
- Large corporate	427.734	403.242	6.132	**837.108**
- Wealth management	171.916	67.595	19.744	**259.255**
- International business banking	125.909	90.697	444.623	**661.229**
- Shipping	12.852	9.426	19.424	**41.702**
Available-for-sale financial assets – debt securities	9.192	175.508	50.492	**235.192**
Held-to-maturity investments	292.314	45.326	-	**337.640**
Other assets	163	46	29	**238**
Total	**1.109.263**	**2.798.153**	**792.134**	**4.699.550**
Off-balance sheet items				
Guarantees and letters of credit	116.241	4.960	1.085	**122.286**
Approved unutilised credit facilities	252.638	23.000	8.307	**283.945**
Total	**368.879**	**27.960**	**9.392**	**406.231**

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

The following table analyses the Bank's main credit risk exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by the industry sectors of the Bank's counterparties as at 31 December 2017 and 2016:

31 December 2017

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets								
Loans and advances to banks	-	-	2.337.755	-	-	-	-	**2.337.755**
Derivative financial instruments	-	102	493	-	-	216	-	**811**
Loans and advances to customers:								
Retail lending:								
- Mortgage	-	-	-	10.318	-	-	-	**10.318**
- Consumer	-	8.304	-	4.312	-	8	-	**12.624**
- Affluent banking	-	-	-	631	-	-	-	**631**
- Credit cards	-	106	-	406	2	-	-	**514**
Wholesale lending:								
- Large corporate	-	802.870	-	19.398	35.808	53.980	620	**912.676**
- Wealth management	-	149.498	-	115.637	2.932	36	2	**268.105**
- International business banking	-	474.643	-	25.464	752	39.560	2	**540.421**
- Shipping	-	150.051	-	5	-	-	-	**150.056**
Available-for-sale financial assets								
- debt securities	157.276	-	41.854	-	-	-	102.952	**302.082**
Held-to-maturity investments	193.529	-	-	-	-	-	38.708	**232.237**
Other assets	-	214	868	-	-	-	71	**1.153**
Total	**350.805**	**1.585.788**	**2.380.970**	**176.171**	**39.494**	**93.800**	**142.355**	**4.769.383**

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	**Total €'000**
Off-balance sheet items					
Guarantees and letters of credit	1	4.235	6.616	117.315	**128.167**
Approved unutilised credit facilities	-	75	37.904	274.565	**312.544**
Total	**1**	**4.310**	**44.520**	**391.880**	**440.711**

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

31 December 2016

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets								
Loans and advances to banks	-	-	2.298.543	-	-	-	-	**2.298.543**
Derivative financial instruments	-	181	9.804	-	-	483	4	**10.472**
Loans and advances to customers:								
Retail lending:								
- Mortgage	-	-	-	11.750	-	-	-	**11.750**
- Consumer	-	1.293	-	4.643	-	12	-	**5.948**
- Affluent banking	-	-	-	-	-	-	-	**-**
- Credit cards	-	79	-	394	-	-	-	**473**
Wholesale lending:								
- Large corporate	-	719.792	-	21.477	45.020	49.535	1.284	**837.108**
- Wealth management	-	143.203	-	113.058	2.867	85	42	**259.255**
- International business banking	-	549.092	-	81.568	1.432	29.136	1	**661.229**
- Shipping	-	41.700	-	2	-	-	-	**41.702**
Available-for-sale financial assets								
- debt securities	61.507	-	51.930	-	-	-	121.755	**235.192**
Held-to-maturity investments	292.314	-	-	-	-	-	45.326	**337.640**
Other assets	-	180	-	-	-	-	58	**238**
Total	**353.821**	**1.455.520**	**2.360.277**	**232.892**	**49.319**	**79.251**	**168.470**	**4.699.550**

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	**Total €'000**
Off-balance sheet items					
Guarantees and letters of credit	1	4.367	1.110	116.808	**122.286**
Approved unutilised credit facilities	-	60	26.054	257.831	**283.945**
Total	**1**	**4.427**	**27.164**	**374.639**	**406.231**

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk

The Bank takes on exposure to market risks. Market risks arise from exposure to interest rates, currency and equity products or combination of them, all of which are exposed to general and specific market movements. Specifically, the market risks the Bank is exposed to are the following:

(a) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected adverse movements arise. The Bank's Risk Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken and exposures are monitored daily.

(b) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk Committee sets limits on the level of exposures which are monitored daily.

(c) Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk that the Bank undertakes arises mainly from equity positions classified as available-for-sale financial assets. The Risk Committee sets limits on the level of the exposures which are monitored daily.

The Bank's monitoring of market risk is performed by the parent bank with the use of 'value at risk' (VaR) methodology to estimate the market risk of positions held and the potential economic loss based upon a number of assumptions and variables.

(d) VaR summary for 2017 and 2016

VaR is a methodology used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The VaR that the Bank measures is an estimate based upon a 99% confidence level and a holding period of 1 day and the methodology used for the calculation is Monte Carlo simulation (full repricing).

The VaR models are designed to measure market risk in a normal market environment. It is assumed that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated using exponentially weighted moving average (EWMA) of 6 months historical data.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to certain limitations. Given this, actual outcomes are monitored regularly, via back testing process, to test the validity of the assumptions and the parameters used in the VaR calculation.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

(d) VaR summary for 2017 and 2016 (continued)

Since VaR constitutes an integral part of the Bank's market risk control regime, VaR limits have been established for all (trading and investment portfolios) operations and actual exposure is reviewed daily by management. However, the use of this approach does not prevent losses outside of these limits in the event of extraordinary market movements.

Average VaR by risk type:

	2017	2016
	€'000	€'000
Interest Rate Risk	**764**	596
Foreign Exchange Risk	**5**	9
Equities Risk	**44**	39
Total VaR	**753**	591

The VaR calculation is applied to all positions.

The aggregate of the interest rate, foreign exchange and equities VaR results does not constitute the Bank's total VaR due to correlations and consequent diversification effects among risk factors.

4.2.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match, and as a result there may be inability to meet cash calls.

The Bank is exposed to daily calls on its available cash resources due to deposits withdrawals, loan draw-downs and guarantees, margin calls and payments on cash-settled derivatives. The Bank maintains cash resources to meet all of these needs. The Risk Committee sets liquidity limits to ensure that sufficient funds are available to meet such calls.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because past performance supports that the third parties generally do not draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below presents maturity analysis of assets as at 31 December 2017 and 2016, based on their contractual undiscounted cash flows. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

31 December 2017

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
- Cash and balances with central banks	505.904	-	-	-	**505.904**
- Loans and advances to banks	1.264.413	1.071.859	2.000	4.000	**2.342.272**
- Loans and advance to customers	567.779	49.855	171.018	1.382.919	**2.171.571**
- Available-for-sale financial assets – debt securities	43.740	12.540	41.784	218.945	**317.009**
- Held-to-maturity investments	5.405	23	9.471	256.675	**271.574**
- Derivative financial instruments	274	12	66	459	**811**
- Other assets	952	-	-	201	**1.153**
	2.388.467	**1.134.289**	**224.339**	**1.863.199**	**5.610.294**

31 December 2016

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
- Cash and balances with central banks	168.378	-	-	-	**168.378**
- Loans and advances to banks	1.671.827	565.338	62.000	6.000	**2.305.165**
- Loans and advance to customers	301.941	51.371	202.319	1.517.136	**2.072.767**
- Available-for-sale financial assets – debt securities	4.694	14.224	17.258	213.851	**250.027**
- Held-to-maturity investments	3.858	56.709	11.925	313.878	**386.370**
- Derivative financial instruments	9.690	25	91	666	**10.472**
- Other assets	78	-	-	160	**238**
	2.160.466	**687.667**	**293.593**	**2.051.691**	**5.193.417**

Derivative assets are reported in the liquidity analysis at current market value. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

The above assets are used from a liquidity management perspective to manage liquidity risk arising from the contractual maturity analysis of financial liabilities as disclosed in the following tables.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below analyses the cash flows payable by the Bank under derivative and non-derivative financial liabilities and off-balances sheet items into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. Liabilities without contractual maturities (sight and saving deposits) are presented in the "less than 1 month" time bucket.

31 December 2017

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Non-derivative liabilities:					
- Due to other banks	468.853	44.269	47.824	-	**560.946**
- Due to customers	2.985.944	468.745	812.886	4.848	**4.272.423**
- Other liabilities	43.589	683	2.762	-	**47.034**
	3.498.386	**513.697**	**863.472**	**4.848**	**4.880.403**
Derivative financial instruments:	**4.730**	**8**	**37**	**461**	**5.236**

Off-balance sheet items	Less than 1 year	Over 1 year	**Total**
	€'000	€'000	**€'000**
Guarantees and letters of credit	128.167	-	**128.167**
Approved unutilised credit facilities	312.544	-	**312.544**
Capital expenditure	339	-	**339**
Operating lease commitments	1.404	995	**2.399**
	442.454	**995**	**443.449**

31 December 2016

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Non-derivative liabilities:					
- Due to other banks	382.014	19.107	52.847	73.594	**527.562**
- Due to customers	2.677.003	539.990	692.615	6.278	**3.915.886**
- Other liabilities	33.563	573	2.525	-	**36.661**
	3.092.580	**559.670**	**747.987**	**79.872**	**4.480.109**
Derivative financial instruments:	**682**	**3**	**50**	**667**	**1.402**

Off-balance sheet items	Less than 1 year	Over 1 year	**Total**
	€'000	€'000	**€'000**
Guarantees and letters of credit	122.286	-	**122.286**
Approved unutilised credit facilities	283.945	-	**283.945**
Capital expenditure	440	-	**440**
Operating lease commitments	986	823	**1.809**
	407.657	**823**	**408.480**

On derivative instruments line, the negative net present value (allocated per time bucket) is presented as a good proxy of the expected outflow.

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The liabilities from derivatives are reported in the liquidity analysis using the current market values of them. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

It should be noted that the above table represents the worst case scenario since it is based on the assumption that all liabilities will be paid earlier than expected (all term deposits are withdrawn at their contractual maturity). Historical experience shows that even in a period of a systemic financial crisis the likelihood of such an event is remote.

4.3 Off balance sheet instruments

In common with other banks, the Bank conducts business involving guarantees, documentary letters of credit and acceptances (Note 27).

Guarantees are generally written by a bank to support the performance of a customer to third parties. As the Bank will only be required to meet obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Documentary credits commit the Bank to make payments to third parties on production of documents and provided that the terms of the documentary credits are satisfied. The repayment by the customer is usually immediate.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer in the event that the customer does not honour payment.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by a bank and subsequently rediscounted.

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made for fixed periods and are cancellable by the Bank subject to notice requirements.

4 Financial risk management (continued)

4.4 Capital management

	2017 €'000	2016 €'000
Ordinary shareholders' equity	**409.858**	409.456
Less: other regulatory adjustments	**(3.669)**	(2.785)
Total Tier 1 capital	**406.189**	406.671
Tier 2 capital	**-**	24.000
Total regulatory capital	**406.189**	430.671
Risk Weighted Assets	**1.526.258**	1.436.063

	2017 %	2016 %
Ratios:		
Core Tier 1	**26,6**	28,3
Tier 1	**26,6**	28,3
Tier 2	**-**	1,7
Capital Adequacy Ratio	**26,6**	30,0

Tier 1 capital represents share capital, share premium and reserves less intangible assets and valuation differences eligible as Tier 2 as at 31 December.

As at 31 December 2016, Tier 2 capital represented subordinated debt and valuation differences eligible as Tier 2.

The Capital Adequacy Ratio as at 31 December 2017 incorporates the early repayment of the €40m subordinated debt and a dividend payment of €50m in 2017.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the European Union and the Central Bank of Cyprus.

The Bank has complied with all externally imposed capital requirements throughout the current and prior year.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, processes and policies from previous years.

4 Financial risk management (continued)

4.4 Capital management (continued)

Leverage
The regulatory framework has introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and will be a binding requirement at the beginning of 2018. The Bank submits to the regulatory authorities the leverage ratio on quarterly basis and monitors the level and the factors that affect the ratio.

The level of the leverage ratio with reference date 31 December 2017 amounts to 11,8% (2016: 12,4%), according to the transitional definition of Tier I capital, significantly over the 3% minimum threshold applied by the competent authorities.

4.5 Financial assets and liabilities measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available, the fair value of financial assets and liabilities is estimated using present value or other estimation and valuation techniques where all significant inputs are observable.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rate used. The fair values of financial assets and liabilities approximate their carrying amounts due to the following reasons:

a) trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, available-for-sale securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques.

b) substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at frequent intervals. Therefore, the Bank has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, other than held-to-maturity financial assets which are referred to in Note 18.

c) all financial instruments that are measured at fair value are categorised into one of the three fair value hierarchy levels at year-end; based on whether the inputs to their fair values are observable or non-observable.

    i) Level 1 - Quoted prices in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis. Any form of valuation technique results in the instrument not falling into this level.

4 Financial risk management (continued)

4.5 Financial assets and liabilities measured at fair value (continued)

ii) Level 2 - Financial instruments measured using valuation techniques where all significant inputs are market observable. This level includes OTC derivative contracts, structured assets and liabilities and available-for-sale financial assets with no quoted price.

iii) Level 3 - Financial instruments measured using valuation techniques which include at least one significant non-observable input.

The fair value hierarchy categorisation of the financial assets and liabilities carried at fair value as at 31 December 2017 and 2016 is presented in the following tables. The below fair value measurements represent recurring fair value measurements.

	At 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€000**	**€'000**
Financial assets measured at fair value:				
Derivative financial instruments held for trading	-	811	-	**811**
Available-for-sale financial assets	304.100	-	-	**304.100**
Total financial assets measured at fair value	**304.100**	**811**	**-**	**304.911**
Financial liabilities measured at fair value:				
Derivative financial instruments held for trading	-	5.236	-	**5.236**
Total financial liabilities measured at fair value	**-**	**5.236**	**-**	**5.236**

	At 31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€000**	**€'000**
Financial assets measured at fair value:				
Derivative financial instruments held for trading	-	10.472	-	**10.472**
Available-for-sale financial assets	236.011	-	-	**236.011**
Total financial assets measured at fair value	**236.011**	**10.472**	**-**	**246.483**
Financial liabilities measured at fair value:				
Derivative financial instruments held for trading	-	1.402	-	**1.402**
Total financial liabilities measured at fair value	**-**	**1.402**	**-**	**1.402**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.6 Financial instruments not carried at fair value

The following table presents the carrying amounts and the fair values of financial instruments not measured at fair value, analysed by the level in the IFRS 13 fair value hierarchy into which each fair value measurement is included:

	At 31 December 2017				
	Level 1 €'000	Level 2 €'000	Level 3 €000	Total Fair Value- for disclosure purposes €000	Carrying amount €'000
Financial assets measured at amortised cost					
Loans and advances to banks	-	2.337.755	-	**2.337.755**	**2.337.755**
Loans and advances to customers	-	-	1.895.345	**1.895.345**	**1.895.345**
Held-to-maturity investments	257.362	-	-	**257.362**	**232.237**
Other financial assets	-	1.152	-	**1.152**	**1.152**
Due to other banks	-	560.463	**-**	**560.463**	**560.463**
Due to customers	-	4.265.178	**-**	**4.265.178**	**4.265.178**
Other financial liabilities	-	47.034	**-**	**47.034**	**47.034**

	At 31 December 2016				
	Level 1 €'000	Level 2 €'000	Level 3 €000	Total Fair Value- for disclosure purposes €000	Carrying amount €'000
Financial assets measured at amortised cost					
Loans and advances to banks	-	2.298.543	-	**2.298.543**	**2.298.543**
Loans and advances to customers	-	-	1.817.465	**1.817.465**	**1.817.465**
Held-to-maturity investments	349.567	-	-	**349.567**	**337.640**
Other financial assets	-	238	-	**238**	**238**
Due to other banks	-	522.359	**-**	**522.359**	**522.359**
Due to customers	-	3.908.262	**-**	**3.908.262**	**3.908.262**
Other financial liabilities	-	36.661	**-**	**36.661**	**36.661**

4.7 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

4 Financial risk management (continued)

4.8 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Bank currently has 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.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instru- ments (d)	Cash collateral received (e)	
	€000	€000	€000	€000	€000	€000
ASSETS						
Loans and advances to banks	2.337.755	-	2.337.755	12.639	-	2.325.116
Loans and advances to customers	1.935.457	40.112	1.895.345	-	-	1.895.345
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4.273.212**	**40.112**	**4.233.100**	**12.639**	**-**	**4.220.461**
LIABILITIES						
Due to other banks	560.463	-	560.463	12.639	-	547.824
Due to customers	4.305.290	40.112	4.265.178	-	-	4.265.178
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4.865.753**	**40.112**	**4.825.641**	**12.639**	**-**	**4.813.002**

4 Financial risk management (continued)

4.8 Offsetting of financial assets and financial liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2016:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instru-ments (d)	Cash collateral received (e)	
	€000	€000	€000	€000	€000	€000
ASSETS						
Loans and advances to banks	2.298.543	-	2.298.543	25.853	-	2.272.690
Loans and advances to customers	1.899.396	81.931	1.817.465	-	-	1.817.465
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4.197.939**	**81.931**	**4.116.008**	**25.853**	**-**	**4.090.155**
LIABILITIES						
Due to other banks	522.359	-	522.359	25.853	-	496.506
Due to customers	3.990.193	81.931	3.908.262	-	-	3.908.262
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4.512.552**	**81.931**	**4.430.621**	**25.853**	**-**	**4.404.768**

The amount set off in the balance sheet reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Bank has master netting arrangements with Eurobank Ergasias S.A., which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the balance sheet.

5 Net interest income

	2017 €'000	2016 €'000
Interest income		
Interest from loans and advances to banks	**18.311**	10.056
Interest from derivatives	**5.500**	3.452
Interest from loans and advances to customers	**61.979**	72.284
Interest from available-for-sale financial assets	**10.105**	10.848
Interest from held-to-maturity investments (Note 18)	**9.794**	12.568
Other interest income	**-**	2
Total interest income	**105.689**	109.210
Interest expense		
Interest on due to other banks	**(7.100)**	(7.923)
Interest on derivatives	**(453)**	(474)
Interest on customer deposits	**(30.885)**	(32.113)
Other interest expense	**(2)**	(4)
Total interest expense	**(38.440)**	(40.514)
Net interest income	**67.249**	68.696

6 Net banking fee and commission income

	2017 €'000	2016 €'000
Banking fee and commission income		
Bank transfer commissions	**7.704**	8.477
Other fees and commissions	**20.090**	21.633
Total banking fee and commission income	**27.794**	30.110
Banking fee and commission expense		
Fees on lien agreements (Note 30)	**(2.062)**	(2.037)
Other fees and commissions	**(5.058)**	(6.654)
Total banking fee and commission expense	**(7.120)**	(8.691)
Net banking fee and commission income	**20.674**	21.419

7 Net trading income

	2017 €'000	2016 €'000
Gains less losses on financial instruments at fair value through profit or loss	**56**	263
	56	263

8 Net gains/losses from investment securities

	2017	2016
	€'000	€'000
Gains on redemptions of held-to-maturity investments	**7.884**	-
Gains less losses on disposal of available-for-sale financial assets	**944**	261
Losses on impairment of available-for-sale equity investments	**-**	(535)
Net gains/(losses) from investment securities	**8.828**	(274)

9 Staff costs

	2017	2016
	€'000	€'000
Salaries and other related costs	**12.689**	10.792
Social insurance and other costs	**2.372**	2.165
Directors' fees and remuneration	**870**	878
Retirement benefit costs – defined contributions scheme	**960**	768
	16.891	14.603

The average number of employees of the Bank during the year 2017 was 325 (2016: 283).

The Defined Contribution Scheme is managed by an Administrative Committee composed of representatives of both the members and the employer.

The Bank contributes 10% of the gross monthly salary of the members of staff who previously were under the Defined Benefit pension scheme which was resolved in 2013 and a range between 5%-10% for new members of staff who were not under the above scheme.

10 Other operating expenses

	2017	2016
	€'000	€'000
Amortisation of intangible assets (Note 19)	**850**	512
Depreciation of property, plant and equipment (Note 20)	**1.530**	1.520
Loss on disposal/write down of intangible assets and property, plant and equipment	**9**	6
Operating lease rentals	**1.485**	1.285
Repairs and maintenance	**2.217**	1.844
Auditors' remuneration for statutory audit	**54**	54
Auditors' remuneration for other assurance and non-assurance engagements	**40**	60
Auditors' remuneration for tax services	**95**	67
Professional fees	**674**	691
Advertising and promotion	**1.737**	1.514
Other administrative expenses	**3.925**	3.956
	12.616	11.509

11 Income tax expense

	2017 €'000	2016 €'000
Current tax:		
- Corporation tax	**5.431**	6.250
- Withholding tax	**57**	57
Total current tax	**5.488**	6.307
Deferred tax charge	**5**	42
Total income tax expense	**5.493**	6.349

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2017 €'000	2016 €'000
Profit before tax and government levies	**51.554**	49.667
Tax calculated at the applicable corporation tax rate of 12,5%	**6.444**	6.208
Tax effect of expenses not deductible for tax purposes	**458**	503
Tax effect of allowances and income not subject to tax	**(1.471)**	(461)
Withholding tax	**57**	57
Deferred tax charge	**5**	42
Income tax expense	**5.493**	6.349

The Bank is subject to income tax on taxable profits at the rate of 12,5%.

As from tax year 2012 brought forward losses of only five years may be utilised.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only be subject to special defence contribution at the rate of 10%; increased to 15% as from 31 August 2011; increased to 30% as from 29 April 2013.

In certain cases, dividends received from abroad may be subject to special defence contribution at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% from 1 January 2012 to 31 December 2013; reduced to 17% as from 1 January 2014.

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

There is no income tax effect relating to components of other comprehensive income (2016: €nil).

11 Income tax expense (continued)

Deferred income tax:

Deferred income taxes are calculated on all temporary differences under the liability method at the rate in effect at the time the reversal is expected to take place.

The movement in deferred income tax assets and liabilities (non-current) during the year is as follows:

	Differences between wear & tear and depreciation €'000	**Total €'000**
Balance at 1 January 2016	10	**10**
Charged to income statement	42	**42**
Balance at 1 January 2017	52	**52**
Charged to income statement	5	**5**
Balance at 31 December 2017 (Note 24)	**57**	**57**

12 Cash and balances with central banks

	2017 €'000	2016 €'000
Cash in hand	**7.299**	6.115
Balances with central banks	**498.605**	162.263
	505.904	168.378
of which:		
Mandatory deposits with central banks	**44.096**	37.637

Cash and balances with central banks are classified as current.

Mandatory deposits with central banks represent the minimum level of average monthly deposits which the Bank is required to maintain. Mandatory balances with central banks can be withdrawn at any time provided the average monthly minimum deposits are maintained.

13 Loans and advances to banks

	2017	2016
	€'000	€'000
Reverse repurchase agreements receivables (1)	**2.118.536**	1.928.817
Placements with banks (2)	**143.023**	346.636
Settlement balances with banks	**76.196**	23.090
	2.337.755	2.298.543
Maturity analysis:		
Current:		
- on demand up to 7 days	**722.542**	656.182
- between 7 days and three months	**1.613.213**	1.580.361
- between three months and one year	**-**	60.000
	2.335.755	2.296.543
Non-current	**2.000**	2.000
	2.337.755	2.298.543

(1) The reverse repurchase agreements receivables as at 31 December 2017 represent money market placements fully secured by investment grade bonds. The majority of these bonds are ECB Eligible bonds amounting to approximately €2,0 billion. The reverse repurchase agreements receivables as at 31 December 2016 represented money market placements fully secured by ECB Eligible bonds. The majority of these were bonds issued by the European Financial Stability Fund amounting to approximately €1,9 billion.

(2) Placements with banks bear interest which is based on the interbank rate of the relevant term and currency.

None of these financial assets are either past due or impaired.

Loans and advances to banks are categorised as "loans and receivables".

14 Investment in subsidiaries

The subsidiary companies and their principal activity are described below:

Name	*Participation*	*Principal activities*	**2017 €'000**	2016 €'000
Foramonio Ltd	100%	Investing activities	**1**	1
Densho Investments Ltd	100%	Investing activities	**1**	-
Lenevino Holdings Ltd	100%	Investing activities	**1**	-
Mesal Holdings Ltd	100%	Investing activities	**1**	-
			4	1

All companies are registered and operate in Cyprus.

The entities have been set up to acquire properties from customers in settlement of their obligations with the Bank.

14 Investment in subsidiaries (continue)

During the year, Kamlo Investments Ltd was set up with a share capital of €1 thousand and was subsequently disposed with a profit of €48 thousand (included in other income in the Income Statement).

15 Derivative financial instruments

The Bank utilises the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase or sell foreign and domestic currency. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. Since future contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is negligible.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities, except in the cases where the counterparty is a Eurobank group entity.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In consideration for the assumption of foreign exchange or interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

15 Derivative financial instruments (continued)

	Fair Values			
	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	€'000	**€'000**	€'000	€'000
Derivatives held for trading				
Foreign exchange derivatives	**109**	**71**	136	79
Cross currency / interest rate swaps	**702**	**5.165**	10.336	1.323
	811	**5.236**	10.472	1.402

	Fair Values			
	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	€'000	**€'000**	€'000	€'000
Maturity analysis:				
Current	**274**	**4.731**	9.806	735
Non-current	**537**	**505**	666	667
	811	**5.236**	10.472	1.402

(a) Cross currency/interest rate swaps

The notional principal amounts of the outstanding cross currency/interest rate swap contracts at 31 December 2017 were €70,9 million (2016: €87,4 million).

(b) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2017 were €12,3 million (2016: €9,4 million).

(c) Foreign exchange options

The notional principal amounts of foreign exchange options at 31 December 2017 were €9,4 million (2016: €4,9 million).

(d) Foreign exchange swaps

The notional principal amounts of foreign exchange options at 31 December 2017 were €503,6 million (2016: €302,5 million).

16 Loans and advances to customers

	2017 €'000	2016 €'000
Retail lending:		
- Mortgages	**10.318**	11.767
- Consumer	**12.687**	6.043
- Affluent banking	**634**	-
- Credit cards	**519**	490
	24.158	18.300
Wholesale lending:		
- Large corporate	**951.616**	891.507
- Wealth management	**299.534**	283.894
- International business banking	**540.664**	661.656
- Shipping	**151.050**	42.463
	1.942.864	1.879.520
Total	**1.967.022**	1.897.820
Gross loans and advances to customers	**1.967.022**	1.897.820
Less: provision for impairment losses	**(71.677)**	(80.355)
Net amount of loans and advances to customers	**1.895.345**	1.817.465

	2017 €'000	2016 €'000
Maturity analysis:		
Current	**713.966**	422.095
Non-current	**1.181.379**	1.395.370
	1.895.345	1.817.465

The movement of the impairment allowances for loans and advances to customers by product line is as follows:

	31 December 2017		
	Wholesale lending €'000	Retail lending €'000	Total €'000
Balance at 1 January	80.225	130	**80.355**
Impairment loss for the year, net of write backs	15.854	(54)	**15.800**
Foreign exchange	(45)	-	**(45)**
Amounts written off (previously provided)	(24.428)	(5)	**(24.433)**
Balance at 31 December	**71.606**	**71**	**71.677**

	31 December 2016		
	Wholesale lending €'000	Retail lending €'000	Total €'000
Balance at 1 January	66.476	33	**66.509**
Impairment loss for the year, net of write backs	14.228	97	**14.325**
Foreign exchange	11	-	**11**
Amounts written off (previously provided)	(490)	-	**(490)**
Balance at 31 December	**80.225**	**130**	**80.355**

In both 2017 and 2016 no loans that were written off in prior years were recovered.

16 Loans and advances to customers (continued)

Interest income on impaired loans and advances to customers accrued during the year amounted to €2.017 thousand (2016: €4.507 thousand).

The fair value of the Bank's loans and advances to customers approximates their carrying amount at the balance sheet date as they bear interest at variable rates.

Loans and advances to customers are categorised as "loans and receivables".

17 Available-for-sale financial assets

	2017	2016
	€'000	€'000
Analysis by issuer:		
Issued by public organisations – government bonds in public government organisations:		
- Russia	**36.564**	45.061
- Cyprus	**120.712**	9.192
- Croatia	**-**	7.254
	157.276	61.507
Issued by other issuers:		
- Banks	**41.854**	52.651
- Other	**104.970**	121.853
	146.824	174.504
Total	**304.100**	236.011
Analysis by type:		
Equity shares	**160**	819
UCIT funds	**1.858**	-
Debt securities	**302.082**	235.192
	304.100	236.011
Maturity analysis:		
Current	**93.257**	25.914
Non-current	**210.843**	210.097
	304.100	236.011

The movement of available-for-sale financial assets is as follows:

	2017	2016
	€'000	€'000
Net book value at 1 January	**236.011**	261.505
Additions	**141.546**	-
Disposals and redemptions	**(71.898)**	(33.384)
Amortisation of discounts/premiums and interest	**(123)**	(1.692)
Net gains from changes in fair values	**10.211**	7.064
Foreign exchange	**(11.647)**	2.518
Net book value at 31 December	**304.100**	236.011

All available-for-sale financial assets, with the exception of UCIT funds, are listed.

None of these financial assets are either past due or impaired.

17 Available-for-sale financial assets (continued)

Equity reserve: Revaluation of the available-for-sale investments

Gains and losses arising from the changes in the fair value of available-for-sale investments are recognised in other comprehensive income and in the revaluation reserve for available-for-sale financial assets in equity. The movement of the reserve is as follows:

	2017 €'000	2016 €'000
Balance at 1 January	**6.950**	(388)
Net gains from changes in fair value	**10.211**	7.064
Net (losses)/gains from investment securities transfer to Income Statement due to disposal and due to impairment	**(946)**	274
Balance at 31 December	**16.215**	6.950

18 Held-to-maturity investments

	2017 €'000	2016 €'000
Cyprus government bonds	**193.529**	292.314
Other debt securities	**38.708**	45.326
	232.237	337.640

	2017 €'000	2016 €'000
Maturity analysis:		
Current	**7.703**	60.232
Non-current	**224.534**	277.408
	232.237	337.640

The movement of held-to-maturity investments is as follows:

	2017 €'000	2016 €'000
Net book value at 1 January	**337.640**	366.081
Additions	**48.143**	40.291
Maturities and Redemptions	**(151.354)**	(68.109)
Interest accrued (Note 5)	**9.794**	12.568
Interest received	**(11.986)**	(13.191)
Net book value at 31 December	**232.237**	337.640

None of these financial assets are either past due or impaired.

19 Intangible assets

	Computer licences & software €'000	**Total €'000**
At 1 January 2016		
Cost	5.272	**5.272**
Accumulated amortisation	(3.040)	**(3.040)**
Net book amount	**2.232**	**2.232**
Year ended 31 December 2016		
At 1 January	2.232	**2.232**
Additions	1.065	**1.065**
Amortisation charge (Note 10)	(512)	**(512)**
At 31 December	**2.785**	**2.785**
At 31 December 2016		
Cost	6.337	**6.337**
Accumulated amortisation	(3.552)	**(3.552)**
Net book amount	**2.785**	**2.785**
Year ended 31 December 2017		
At 1 January	2.785	**2.785**
Additions	1.734	**1.734**
Amortisation charge (Note 10)	(850)	**(850)**
At 31 December	**3.669**	**3.669**
At 31 December 2017		
Cost	8.120	**8.120**
Accumulated amortisation	(4.451)	**(4.451)**
Net book amount	**3.669**	**3.669**

20 Property, plant and equipment

	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	**Total €'000**
At 1 January 2016				
Cost	8.407	128	4.465	**13.000**
Accumulated depreciation	(3.058)	(112)	(2.959)	**(6.129)**
Net book amount	**5.349**	**16**	**1.506**	**6.871**
Year ended 31 December 2016				
At 1 January	5.349	16	1.506	**6.871**
Additions	1.168	-	764	**1.932**
Disposals and write offs	-	-	(13)	**(13)**
Depreciation charge (Note 10)	(980)	(8)	(532)	**(1.520)**
At 31 December	**5.537**	**8**	**1.725**	**7.270**
At 31 December 2016				
Cost	9.575	128	4.743	**14.446**
Accumulated depreciation	(4.038)	(120)	(3.018)	**(7.176)**
Net book amount	**5.537**	**8**	**1.725**	**7.270**
Year ended 31 December 2017				
At 1 January	5.537	8	1.725	**7.270**
Additions	709	-	381	**1.090**
Disposals and write offs	(3)	(1)	(6)	**(10)**
Depreciation charge (Note 10)	(1.044)	(5)	(481)	**(1.530)**
At 31 December	**5.199**	**2**	**1.619**	**6.820**
At 31 December 2017				
Cost	10.279	76	5.007	**15.362**
Accumulated depreciation	(5.080)	(74)	(3.388)	**(8.542)**
Net book amount	**5.199**	**2**	**1.619**	**6.820**

Leasehold improvements relate to premises occupied by the Bank for its own activities.

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2017 €'000	2016 €'000
Net book amount	**10**	13
Loss on sale of property, plant and equipment	**(3)**	(6)
Proceeds from sale of property, plant and equipment as per cash flow statement	**7**	7

21 Other assets

	2017	2016
	€'000	€'000
Prepaid expenses	**734**	459
Other assets	**1.153**	238
	1.887	697

	2017	2016
Maturity analysis:	**€'000**	€'000
Current	**986**	104
Non-current	**901**	593
	1.887	697

None of these financial assets are either past due or impaired.

22 Due to other banks

	2017	2016
	€'000	€'000
Deposits from other banks	**422.752**	381.327
Settlement balances with other banks	**137.711**	100.997
Subordinated debt (Note 30(i))	**-**	40.035
	560.463	522.359
Maturity analysis:		
Current:		
- on demand up to 7 days	**144.861**	120.172
- 7 days up to 3 months	**311.941**	280.695
- 3 months to 1 year	**38.752**	52.245
	495.554	453.112
Non-current:		
- 1 to 5 years	**7.350**	40.418
- after 5 years	**57.559**	28.829
	64.909	69.247
	560.463	522.359

The fair value of amounts due to other banks approximates their carrying amount at the balance sheet date.

Amounts due to other banks are categorised as other financial liabilities at amortised cost.

23 Due to customers

	2017	2016
	€'000	€'000
Current accounts	**2.211.931**	1.861.314
Notice accounts	**11.224**	6.267
Term deposits	**2.042.023**	2.040.681
	4.265.178	3.908.262
Maturity analysis:		
- up to 1 month	**2.985.395**	2.676.445
- between 1 month and three months	**467.820**	539.015
- between three months and one year	**807.119**	686.546
- between one year and five years	**3.593**	4.833
- more than five years	**1.251**	1.423
	4.265.178	3.908.262

The fair value of amounts due to customers approximates their carrying amount at the balance sheet date as the amounts due to customers almost entirely fall due within one year.

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2017 amounted to €588 million (2016: €789 million).

Amounts due to customers are categorised as other financial liabilities at amortised cost.

Special levy on total deposits is imposed by legislation to all Banks and Credit Institutions operating in Cyprus.
The special levy is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly instalments. The government levy on customer deposits for the year ended 31 December 2017 amounted to €4.924 thousand (2016: €5.227 thousand). Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the special levy up to the level of the total annual special levy charge. The 2017 government levy is net of €1.011 thousand relating to the contribution to the Single Resolution Fund.

24 Other liabilities

	2017	2016
	€'000	€'000
Current income tax liability	**706**	1.070
Deferred tax liability (Note 11)	**57**	52
Other liabilities and accruals [1]	**47.034**	36.661
	47.797	37.783

	2017	2016
	€'000	€'000
Maturity analysis:		
Current	**47.740**	37.731
Non-current	**57**	52
	47.797	37.783

[1]Other liabilities and accruals include commissions and consultancy fees of €198 thousand (2016: €291 thousand) payable to Eurobank Ergasias S.A. (Note 30 (i)).

25 Share capital

The par value of the Bank's shares is €10 thousand per share. All shares are fully paid.

The movement of share capital and share premium is as follows:

	No. of shares	Ordinary shares €'000	Share premium €'000	**Total €'000**
Authorised				
At 31 December 2016 & 2015	**1.500**	**15.000**	**-**	**15.000**
Issued				
At 31 December 2016 & 2015	**1.201**	**12.010**	**245.384**	**257.394**

There were no changes in the Bank's share capital during the years ended 31 December 2017 and 2016.

All the shares have the same rights.

Dividends

The Board of Directors at a Board meeting of 28 December 2017, proposed at a Shareholders' Extraordinary General Meeting which took place on the same date after the Board meeting, the payment of a dividend distribution of €50 million or €41,6 thousand per share. The Board of Directors proposal was approved at the shareholders' meeting and the dividend was executed on the same day.

The Board of Directors did not recommend the payment of a dividend for the year 2016.

26 Operating lease commitments – where the Bank is the lessee

The Bank leases various offices under non-cancellable operating lease agreements with varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable building operating leases are as follows:

	2017 €'000	2016 €'000
Not later than one year	**1.404**	986
Later than one year and not later than five years	**995**	823
	2.399	1.809

27 Contingencies and commitments

The following analysis indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit the Bank to make payments in relation to acceptances, guarantees, indemnities and letters of credit drawn on customers and other undrawn commitments to lend:

	2017 €'000	2016 €'000
Contingent liabilities:		
Guarantees	**120.090**	114.418
Other	**8.077**	7.868
	128.167	122.286
Commitments:		
Approved unutilised credit facilities	**312.544**	283.945

Capital commitments

As at 31 December 2017 commitments for contracted capital expenditures for the Bank amount to €339 thousand (2016: €440 thousand).

Legal proceedings

As at 31 December 2017 and 2016 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

28 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts, including fiduciary assets, with fair value amounting to approximately €2.129.082 thousand (2016: €1.398.094 thousand).

29 Cash and cash equivalents on cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of three months or less:

	2017 €'000	2016 €'000
Cash in hand (Note 12)	**7.299**	6.115
Balances with banks	**2.335.755**	2.236.543
Balances with central banks (Note 12)	**498.605**	162.263
	2.841.659	2.404.921

30 Related party transactions and balances

The immediate controlling party of the Bank is ERB New Europe Holding B.V. registered in the Netherlands. Eurobank Ergasias S.A., who produces consolidated financial statements available for public use, owns 100% of the shares of ERB New Europe Holding B.V.. The consolidated financial statements of Eurobank Ergasias S.A. are available at the Eurobank Ergasias S.A.' website (www.eurobank.gr). The registered office of Eurobank Ergasias S.A. is located at 8 Othonos Street, Athens 105 57, Greece.

In November 2015, following the completion of Eurobank Ergasias S.A.'s share capital increase, fully covered by investors, institutional and others, the percentage of Eurobank Ergasias S.A.'s ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 35,41% to 2,38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over Eurobank Ergasias S.A. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in Eurobank Ergasias S.A.'s General Assembly only for decisions concerning the amendment of Eurobank Ergasias S.A.'s Articles of Association, including the increase or decrease of Eurobank Ergasias S.A.'s capital or the granting of a corresponding authorisation to Eurobank Ergasias S.A.'s Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of Eurobank Ergasias S.A., the transfer of assets (including the same of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, Eurobank Ergasias S.A. has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014, which regulates, among others, (a) Eurobank Ergasias S.A.'s corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of Eurobank Ergasias S.A.'s Non-Performing Loans (NPL) management framework and of its performance on NPL resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of Eurobank Ergasias S.A.'s actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for Eurobank Ergasias S.A.'s Group Risk and Capital Strategy and for its Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in Eurobank Ergasias S.A.'s Board.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits, derivatives and repurchase agreements. In addition, as part of its normal course of business in investment banking activities, the Bank at times may hold positions in debt and equity instruments of related parties.

The volume of related party transactions and outstanding balances at the year-end are shown on the next page:

Eurobank Cyprus Ltd

Notes to the financial statements

30 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2017	2016	**2017**	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Balances:						
Loans and advances to banks (1)	**2.131.175**	1.975.916	**1.337**	80	**-**	-
Loans and advances to customers (2)	**-**	-	**338.474**	306.145	**516**	742
Derivative financial instruments – Assets	**486**	9.802	**-**	-	**-**	-
Other assets	**-**	-	**35**	17	**-**	-
Due to other banks (3)	**439.315**	432.395	**-**	-	**-**	-
Derivative financial instruments – Liabilities	**4.997**	1.265	**-**	-	**-**	-
Due to customers	**-**	-	**5.905**	7.723	**2.935**	2.415
Other liabilities	**240**	291	**580**	15	**-**	-
Transactions:						
Interest income	**18.252**	9.861	**13.283**	19.300	**16**	30
Interest expense	**7.149**	8.143	**2**	56	**25**	27
Banking fee and commission income	**580**	323	**-**	-	**-**	-
Banking fee and commission expense – fees on lien agreement	**2.061**	2.037	**-**	-	**-**	-
Banking fee and commission expense – other	**388**	353	**160**	79	**-**	-
Net trading (loss)/income	**(41)**	46	**-**	-	**-**	-
Staff costs excluding retirement benefit costs	**-**	-	-	-	**1.264**	1.257
Defined contribution scheme	**-**	-	-	-	**128**	125
Directors' remuneration	**-**	-	-	-	**821**	830
Other operating expenses	**351**	322	**122**	179	**-**	-

Key management personnel include directors and key management personnel of the Bank, and their close family members.

(1) Loans and advances to banks include reverse repurchase agreements with Eurobank Ergasias S.A. of €2.118.536 thousand (2016: €1.928.817 thousand) (Note 13).

30 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances (continued):

(2) Total collaterals in relation to loans and advances to key management personnel amounted to €414 thousand (2016: €684 thousand).

(3) On 31 March 2010, Eurobank Ergasias S.A. advanced the sum of €40 million to the Bank. The interest rate of the loan was set at an annual rate equal to 3 month LIBOR plus 65 basis points and reprised to 3 month LIBOR plus 275 basis points on 18 December 2013. The loan had a tenor of ten years. After 31 March 2015 the Bank has the option to call in any part of the loan subject to the prior consent of the Central Bank of Cyprus. The loan was not secured and the rights and claims of Eurobank Ergasias S.A. were subordinated to the claims of all other creditors of the Bank except the holders of other subordinated indebtedness of the same type (lower tier II) of the Bank. On 15 June 2017, following the consent of the European Central Bank, the loan was repaid in full.

(ii) Lien agreements

As of 31 December 2017 and 2016, the Bank has in place lien agreements from Eurobank Ergasias S.A., which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2017	2016
	€'000	€'000
Loans and advances to customers	**339.490**	315.791

Based on the Lien agreements, in case of default of any of the issuers of the underlying assets, the Bank can set off the receivable amounts with the equivalent funds placed by Eurobank Ergasias S.A.

On 28 September 2012 the Bank and Eurobank Ergasias S.A. signed a memorandum of understanding whereby the latter assumes the credit losses arising from the credit facility extended by the Bank to ERB New Europe Funding II B.V. for any amount exceeding the amount of €15 million on an annual basis, and establish a pledge, in favour of the Bank over a deposit held in its name with the Bank. The loans and advances to customers subject to these arrangements amounted to €35.206 thousand (2016: €40.261 thousand).

31 Post balance sheet events

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

Independent Auditor's Report on pages 7 to 12.